

FUNDAÇÃO GETULIO VARGAS  
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

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THE OPPORTUNITY OF AN INTERNATIONALIZATION PROCESS TO BRAZIL:  
THE CASE OF ETAI, A FRENCH SME

SÃO PAULO

2011

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Dissertação apresentada à Escola de  
Administração de Empresas de São Paulo da  
Fundação Getulio Vargas como requisito para  
obtenção do título de Mestre em Gestão  
Internacional

Campo do conhecimento: Administração

Orientador: Prof. Tales Andreassi

SÃO PAULO

2011

Lorillon, Jean Ederm Yves Maurice Marie

The Opportunity of an Internationalization Process to Brazil: The Case of Etai,  
a French Sme / Jean Ederm Yves Maurice Marie Lorillon – 2011

114 f.

Orientador: Tales Andreassi.

Dissertação (MPGI) - Escola de Administração de Empresas de São  
Paulo.

1. Globalização. 2. Pequenas e médias empresas - França. 3. Empresas  
multinacionais - Brasil. 4. Comércio internacional. I. Andreassi, Tales. II.  
Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.  
III. Título.

CDU 334.746.3/.4

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144 Campo do conhecimento: Administração

**Data de aprovação: 25/10/2011**

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## RESUMO

Este trabalho teve como objetivo principal fornecer subsídios para uma pequena empresa francesa analisar a viabilidade do seu processo de internacionalização no Brasil, um caminho difícil e cheio de obstáculos. De fato, muitas empresas francesas estão tentando entrar no mercado brasileiro, visto como um país que oferece várias oportunidades para o crescimento e rentabilidade destas empresas. No entanto, por causa da falta de recursos e das dificuldades a serem enfrentadas durante o processo de internacionalização, pequenas empresas devem analisar cuidadosamente a viabilidade de um projeto internacional, antes de entrar no mercado estrangeiro. Assim, trabalhos acadêmicos foram usados como referência para identificar e apresentar os aspectos administrativos, econômicos e culturais que poderiam facilitar ou dificultar o processo de internacionalização. Os principais aspectos administrativos apresentados foram a seleção do mercado internacional, o modo de internacionalização e os desafios do processo de internacionalização. Para os aspectos econômicos, apresentamos as principais tecnologias usadas para financiar pequenas e médias empresas, e o impacto das infra-estruturas nessas tecnologias. Também, para que uma PME possa entender o processo de financiamento, apresentamos o ponto de vista dos Bancos. Aspectos culturais que poderiam facilitar ou dificultar o processo de internacionalização são apontados através de conceitos acadêmicos como "distância cultural" ou "distância psíquica". Este trabalho discute também como as diferenças entre as culturas são susceptíveis em gerar dificuldades ou vantagens, e que a distância cultural também pode ter um impacto no modo de entrada escolhido pela empresa no país de acolhimento.

**Palavras-chave:** Internacionalização, pequenas e médias empresas, França, Brasil desenvolvimento internacional.

## ABSTRACT

The study had the main objective of providing a French SME with the information needed to analyze the viability of an internationalization process to Brazil, a difficult path strewn with obstacles. Indeed, many French companies are currently willing to enter the Brazilian market, which is seen as great host country offering numerous opportunities for growth and profitability. However the lack of resources and the many difficulties that have to be dealt with during the internationalization process lead SMEs to carefully analyze the opportunity of an international project before trying to enter the foreign market. Thus, academics papers were used as references to identify and present administrative, economical and cultural elements that could facilitate or hamper the internationalization process. The main administrative issues presented were the international market selection, the mode of internationalization, and the challenges of the internationalization process. As regards economical elements, we presented the main lending technologies available to SMEs and the impact of lending infrastructures in the host country on credit granting. Finally, in order for the SME to understand the lending process, we presented the banks' point of view when supplying credit to SME. Cultural aspects that could facilitate or hamper the internationalization process are pointed out through academics concepts such as "cultural distance" or "psychic distance". We argue that gaps between cultures are likely to generate culture-related difficulties or advantages, and that cultural distance is also likely to impact the entry mode chosen by the company in the host country.

**Keywords:** Internationalization process, small and medium companies, France, Brazil, and International development.

## LIST OF ABBREVIATIONS AND ACRONYMS

AEA	Associação Brasileira de Engenharia Automotiva
AFD	Agence Française de Développement
AIDF	Autorização de Impressão de Documentos Fiscais
ANDAP	Associação Nacional dos Distribuidores de Autopeças
ANFAVEA	Associação Nacional dos Fabricantes de Veículos Automotores
BACEN	Banco Central do Brasil
BI	Business Intelligence
BNDES	Banco Nacional do Desenvolvimento, Indústria e Comércio Exterior
CCFB	Câmara de Comércio França-Brasil
CGU	Controladoria Geral da União
CNPJ	Cadastro Nacional de Pessoa Jurídica
CPF	Cadastro de pessoas físicas
CPF	Cadastro de Pessoas Físicas
CPI	Corruption Perception Index
DNRC	Departamento Nacional de Registro do Comércio
DNRC	Departamento Nacional do Registro do Comércio
ETAI	Edition Technique pour l'Automobile et l'Industrie
FDI	Foreign Direct Investment
FENABRAVE	Federação Nacional de Distribuição de Veículos Automotores

FGTS	Fundo de Garantia do Tempo de Serviço
FINEP	Financiadora de Estudos e Projetos
GDP	Gross Domestic Product
HRM	Human Resource Management
IDB	Inter-American Development Bank
IIRSA	Initiative for the Integration of the Regional Infrastructure of South America
INPI	Instituto Nacional da Propriedade Industrial
INSS	Instituto Nacional da Seguridade Social
IRLF	Inspetoria Regional de Licenciamento e Fiscalização
IT	Information Technology
NIRE	Número de Inscrição no Registro Comercial
R&D	Research and Development
RADAR	Registro e Rastreamento da Atuação dos Intervenientes Aduaneiros
RDE-IED	Registro Declaratório Eletrônico de Investimentos Externos Diretos
REI	Registro de Importadores e Exportadores
RFB	Receita Federal do Brasil
SECEX	Secretaria de Comércio Exterior
SINDIPEÇAS	Sindicato Nacional da Indústria de Componentes para Veículos Automotores
SINDIREPA	Sindicato da Indústria de Reparação de Veículos e Acessórios do Estado de São Paulo



SINREM	Sistema Nacional de Registro de Empresas Mercantis
SISCOMEX	Sistema Integrado de Comercio Exterior
SME	Small and Medium Enterprise
TI	Transparency International
TMT	Top Management Team
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAN	Union of South American Nations

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# 1. INTRODUCTION

The subject of this thesis is based upon several assumptions and observations:

- Over the past few years, Brazil has become more and more important on the international stage. Nowadays, foreign companies, whether they are powerful multinationals or small companies, perceive Brazil as a place of vast potential that offers many business opportunities.
- Many French small and medium enterprises (SMEs) are willing to enter the Brazilian market, which is arguably an excellent “new home” for French investors.
- The internationalization process is complicated and strewn with obstacles. Indeed, there are not only lots of challenges directly related to the internationalization process itself but companies also have to deal with difficulties specifically related to the Brazilian political, cultural and economical environment.

In this context, a French SME that was considering the idea of entering the Brazilian market contacted me. At that time, the company had made neither strategic plans nor any kind of business plan. The process was starting from scratch and the SME needed information and knowledge that would help it analyze the viability of an internationalization process in Brazil.

Therefore, the main objective of this thesis is to:

- 1. Provide a French SME with the required information to analyze the viability of an internationalization process to Brazil.**

And, secondary objectives were:

2. Identify **strategic and administrative** elements that could facilitate or hamper the internationalization process of a French SME.
3. Identify **economical** elements that could facilitate or hamper the internationalization process of a French SME.

4. Identify **cultural** elements that could facilitate or hamper the internationalization process of a French SME.

The thesis structure is therefore closely related to these objectives. The literature review presents the main theoretical frameworks and opposing theories about the major administrative, economical or cultural issues that could represent substantial challenges or difficulties to the SME.

Section 2.1 opens up with the international market selection, presenting a normative framework for the host market selection and the triggers that lead companies to operate in foreign markets. The section continues with the entry mode strategic decision, presenting tools for the company to select the appropriate entry mode in the host country: an equity based investment or a non equity based investment, the acquisition of an existing local firm or the implementation of a completely new business unit. We end the section presenting the main strategic challenges faced by SMES during the internationalization process. Indeed, a company that wants to analyze the viability of an international project should be able to foresee the main difficulties it might encounter when going global.

Section 2.2 presents the economical aspects that could ease or hamper the SME during the internationalization process. Based on the literature review, we propose conceptual frameworks for analysis of SME credit availability issues and introduce the concept of lending technologies. We also present the effect of lending infrastructures of nations on the use of different lending technologies in SME financing. By lending infrastructures we understand the information environment, the legal, judicial, and bankruptcy environments, the social environment, or the tax and regulatory environments. We end the section bringing to the fore the decision making process of banks and the transaction costs of supplying credit to SME. Indeed, it seemed important that a company had sufficient information to understand the process of credit granting to SMEs. By doing so, a company that wants to analyze the viability of its internationalization process could understand why, how, and on what costs a bank could finance the international growth of the company.

Section 2.3 presents the cultural aspects that could ease or hamper the SME during its internationalization process. To do so, based on the literature review, we present the concept of **cultural distance** between countries, and **psychic distance**, i.e. the way individuals



perceive cultural differences between a home country and a foreign country. We also bring to the fore the culture-related difficulties or advantages that could be generated during the internationalization process. We also present the impact of cultural distance on the entry mode, stressing the importance of language barriers and control mechanisms implemented by companies to deal with culture-related difficulties. We end the section highlighting that the impact of cultural differences on the performance of the company is not always negative. On the contrary, cultural traits are likely to become a source of competitiveness if they are well targeted and used by managers.

In the Chapter three of this study, after presenting the company ETAI, we present the opportunity for the SME in Brazil. We argue that Brazil is nowadays a place of vast potential among emerging countries, offering great opportunities for growth and profitability, and a potential new “home” for French investors. We also describe the Aftermarket and the automotive industry in Brazil, in which ETAI wants to operate. Therefore, with the market information provided to ETAI, it could analyze the viability of its internationalization process.

The fourth Chapter of the thesis present solutions to the major administrative, economical or cultural issues brought to the fore in the literature review. In section 4.1, we focus on the entry mode and the challenges of the internationalization process highlighted in the literature review. As regards the entry mode, we argue that ETAI could opt for a non-equity investment plan. However, for ETAI to analyze the viability of its internationalization process, we recommend it should focus on an equity-based investment. Then, we present the main entry modes and corporate forms related to equity-based investment. The section ends with the presentation of useful knowledge on administrative procedures required to register a company and the main challenges faced by companies trying to enter a foreign market in Brazil, e.g. taxation, bureaucracy, education, corruption, and the rise of the real.

Section 4.2 refers to the economical aspects of the internationalization process, presenting the ways ETAI could finance its international project. For the company to analyze the viability of its international project, we identify the main financial institution and organization in France and in Brazil that could finance the growth of ETAI abroad. We also present the credit granting situation in Brazil and the aspects of the company that are pointed out by banks, i.e. private information, strong relationship between companies and banks, and credit rationing faced by small companies due to the inability of banks to implement less costly structures providing credit to SME. We finally end the section presenting the four main costs

generated when operating in Brazil: transport costs, salaries, operating costs, and lifestyle costs.

In the literature review we pointed out that cultural traits are likely to become a source of competitiveness if they are well targeted and used by managers. Therefore, in section 4.3, we present Brazilian cultural traits that could be used by ETAI during its internationalization process. By doing so, when analyzing the viability of its business project in Brazil, ETAI could take into account that cultural differences could be seen as an advantage, reducing the psychic distance. We end the section providing a list of contacts in France and Brazil that may be useful for companies and their leaders, since developing a strong network in Brazil may be the best way to cope with cultural related issues during the internationalization process.

## **2. LITERATURE REVIEW**

### **2.1. Strategic and administrative aspects of the internationalization process**

When a company has to analyze the viability of an internationalization process, it should (1) identify a foreign country that offers a strong growth potential to its business, (2) identify the best entry mode in this country, and (3) be aware of the challenges the company might encounter when entering the foreign market.

#### **2.1.1. The International Market Selection**

SMEs have less flexibility in choosing appropriate markets and modes of entry than large multinational corporations (Alon, 2004). Indeed, they have less resource that can be allocated to market selection and are less likely to enter a costly internationalization process. Alon (2004) presents critical resources that companies are lacking to go international, namely: capital (money), management attention, experienced personnel, international business skills, and know how about foreign markets. Therefore, it is not possible for a SME to enter the 192 nation States and, since country selection is a key component of the firm's internalization process, the limited efforts and resources of companies should be focused on a specifically chosen country and market.

Alon (2004) presents a normative framework for country and host market selection and proposes a six-step model to select foreign target markets:

1. **Examining the product exports:** government figures provided by the Department of Commerce are good indicators of market export potential because they give a good insight on the company's related products exports.
2. **Analyzing Web site hits:** a company's website can be used to promote and manage international sales and operations. On the long term, the company can capture information about the country of origin of its users and point out which country show the most interest to the company's products.
3. **Following the customers' globalization:** this step consists in analyzing the internationalization of customers (and competitors) to find relevant foreign markets and measure the international potential.
4. **Ranking markets in terms of market potential:** in order to choose the best country, the company can rank each potential target according to different categories. Specific factors can be weighted.
5. **Dividing markets in terms of ease of entry:** for SMEs, foreign markets are not the same in terms of ease of entry. Each market should therefore be divided in the order of ease-of-entry.
6. **Evaluation and prioritizing the most promising markets:** For example, the company can either choose to maximize sales growth potential or reduce the downturn risk associated with specific markets/regions. Finally, an international business plan should be developed for each strategic market.

This first theoretical framework might give the company the first tools required to start its international market selection. The SME can also include other indicators that will specifically target its international strategy, its resource and the characteristics of the company. For example, a risk-averse management may decide to include geographic elements in the IMS, taking into account that countries that are geographically and/or culturally similar might reduce uncertainty in decision-taking and encourage companies to proactive attitudes towards the development of their international businesses (De Luz, 1993).

Still related to the International Market Selection, a SME that wants to go abroad should understand the motives for an internationalization process? In other words, selecting the

country and understanding the triggers that lead companies to operate in foreign markets are important aspects to analyze the viability of an international strategy.

Why firms' interest in a country lead them to engage with the foreign market and what is the process whereby their engagement with the market progresses? Smallbone and North (1995) suggest that firms decide to expand their international activity to increase their profitability, and by the same token their propensity for survival. Other scholarly literature suggests that there are three main initial triggers leading companies to pursue an international strategy (Rodrigues & Child, 2007), divided into two groups (rational strategic analysis and serendipitous events):

- Initial triggers that are generated by a rational strategic analysis
  - A foreign market potential for growth and profitability.
  - A declining home country market and/or difficult home country market competing conditions leading the company to go abroad in order to survive.
- Initial triggers that are generated by unplanned events leading to an unanticipated approach to Brazil.

As regards serendipitous events, a strong push factor might be generated by a heavy dependence on a major customer that expands its internationalization. Indeed, when a large customer that counts for approximately 40 per cent of the company's sales, starts to manufacture in Brazil and wants the company to supply it from within Brazil, the company would have to face significant logistical problems and deal with high import duties if it stayed in the home market. Finally, serendipitous events are less important than the ability of managers to identify react to, and exploit these chance events. Social networks, business networks, entrepreneurial flair or any other ability might be crucial to recognize and utilize the international opportunities when they arise (Crick & Spence, 2005).

### 2.1.2. Mode of Internationalization

After the company has selected the appropriate foreign market, it has to decide what will be the best entry mode that will maximize its chance of success during the internationalization process. The international entry mode of a company is a strategic decision and it is considered that “*the success of SMEs under globalization depends in large part on the formulation and implementation of strategy*” (Knight, 2000, p. 13). Brouthers and Nakos (2004) showed that SME managers could use the transaction cost model as a tool to make international business decision.

Let us remember that a transaction cost is a cost incurred in making an economic exchange. For example, bargaining costs are the costs required to enter into an acceptable agreement with the other party. Also, policing and enforcement costs are the costs required to make sure that the other party will stick to the terms of the contract and take the appropriate action through the legal system if needed.

According to the transaction cost theory, **behavioural uncertainties**, **asset specificity** and **environmental uncertainties** create two main costs: *control costs* and *market transaction costs* (Williamson, 1985).

**Asset specificity** can arise from three different ways:

- Site specificity (e.g. stations are located in a specific relation to each other so as to economize on inventory and transportation expenses),
- Physical asset specificity (e.g. special dies are required to produce a component), and
- Human asset specificity (which arises from learning by doing).

A high degree of specificity increases transaction costs. For example, a unique technology and know-how has to be protected from falling into the hands of competitors; a switching cost may also be created if an initial foreign agent does not perform well or if the entry mode in a country has to be changed (McNaughton & Bell, 2001). Indeed, the company would have to find, negotiate with, and train another agent.

**Behavioural uncertainties** “*arise from the inability of a company to predict the behaviour of individuals in foreign country* (Brouthers & Nakos, 2004). Behavioural uncertainties are an important influencing factor for SMEs, since they usually rely on managerial abilities of small management teams (Oviatt & McDougall, 1997). According to Williamson (1981), the transaction cost analysis relies on two behavioural assumptions:

- Human agents are subject to bounded rationality, and
- Some agents are given to opportunism.

Bounded rationality is the fact that, though agents remain intensely rational, they experience limits in formulating and solving complex problems and processing. Besides, agents are not fully trustworthy, and opportunistic behaviour involves cheating, distortion of information, shirking of responsibility and other forms of dishonest behaviour (Williamson, 1981). Here again, the company will try to control this behavioural uncertainty. For example, hierarchical ownership is an internal mechanism that gives the company a legal right to control the actions of foreign-based employees (Williamson, 1985). Entry mode studies have shown that firms that lack international control mechanisms may reduce the opportunistic aspect of behavioural uncertainty by shifting control to a foreign agent, resident in the foreign market (Gatignon & Anderson, 1988). In most cases, SMEs do not have the ability to extend its control structures in a foreign country and send their own people for any extended period of time (Lu & Beamish, 2001). Therefore, past studies have shown that SMEs’ favourite international entry mode often relies on exporting (Coviello & McAuley, 1999).

**Environmental Uncertainties** are created by the target environment and refer to the risks associated with a host country. For example, policing and enforcement costs are likely to increase in countries with no clear legal system and unstable political and legal environment. In such environments, firms will tend to choose non-equity and low-investment entry modes to avoid resource commitment and increase the flexibility to change partners, renegotiate contract terms if circumstances change drastically. A low-resource commitment makes it easy to implement exit strategies.

Results of empirical experiences show that “*SMEs making greater asset-specific investments tended to prefer equity modes of entry. [...] SMEs with more developed internal control systems tended to prefer equity modes of entry. [...] SMEs entering countries characterized by high environment uncertainty tended to prefer non-equity modes of entry*” (Brouthers &

Nakos, 2004). Besides, SME subsidiary performance tended to be better when the company used an entry mode predicted by applying the transaction cost theory to the international entry mode decision (Brouthers & Nakos, 2004). This indicates that mode performance and mode choice are closely related. Therefore, for both the financial and non-financial success of the SME subsidiary, managers considering international expansion may be able to make choice decisions using the transaction cost criteria.



### 2.1.3. Acquisition versus Greenfield investment

When a company decides to enter into a foreign market *via* an equity-based investment, it has to choose between acquire an existing local firm (acquisition) or set up a completely new business unit (greenfield investment). Previous studies based on the transaction cost framework have defined key factors that have an impact on the choice between greenfields and acquisitions.

The six most common variables presented by Harzing (2002) are: R&D intensity, the degree of diversification, cultural distance, the level of foreign experience, the size of the foreign direct investment compared to the size of the investing company, and the time of entry.

**Table 1 - Factors influencing the choice between greenfields and acquisitions**

<b>Characteristic</b>	<b>Indicators</b>
R&D intensity	SME R&D expenses divided by its total level of sales.
Degree of product diversification	Number of different 4-digit SIC codes in which the SME operates.
Foreign experience	The number of years that had passed since the company established its first foreign subsidiary.
Cultural Distance	Kogut and Singh's (1988) composite index.
Relative size of investment	Number of employees of the subsidiary in question divided by the number of employees at headquarters.
Time of investment	Year of foundation of the subsidiary and the year of acquisition.

**Source:** Harzing, 2002

Many considerations are to be taken into account to choose between a greenfield investment and an acquisition. For example:

- **The technological intensity of the company:** a technologically intensive company might prefer a greenfield investment in order not to disseminate its firm-specific advantage.
- **The resources of the company that can be invested:** small firms may not have enough financial or managerial resources to create a large greenfield venture abroad. However, even though greater size allows firm to engage in international activities, the strategy of a small firm and the potential represented by the internationalization opportunity might be good reasons to invest a significant part of the resources of a small company (Harzing, 2002).
- **The international knowledge:** some companies have developed well established organizational routine and are more easily able to operate abroad through greenfield investment (Cho & Padmanabhan, 1995)
- **The market context:** Acquisition is preferable to greenfield investment in a slow growing market, where weak competitors struggling with market conditions are potential targets (Harzing 2002). In a fast growing market, on the contrary, there is room for capacity growth for greenfield investment. However, acquisition might still be preferred to quickly enter the market, buy the market share, and take advantage of current opportunities. It is therefore an opportunity cost to remain absent in the fast growing market (Andersson & Svensson, 1994). To sum up, two opposing theories relate the market context and the internationalization mode: the capacity growth and the opportunity cost.

#### **2.1.4. The Challenges of an Internationalization process**

In order to analyze the viability of its internationalization process, a SME should identify the many different difficulties it might encounter when going global. SMEs have less resource that can be allocated to employ business development specialists that have gained and accumulated knowledge about countries' specificities, environment and opportunities. Therefore, SMEs are often "ill-equipped" compared to multinationals companies.

McKee, Conant, Mokwa, and Varadarajan (1992) presented strategic challenges faced by SMEs and classified them into three categories: country specific, industry specific and firm specific issues

##### **1. *Country specific challenges.***

In broad terms, it refers to uncontrollable and external factors such as the economic, legal and regulatory, and social-cultural environment. Other factors that can impact the company's performance abroad are: communication technologies, the literacy rate, the unemployment rate, the regulatory and commerce infrastructures, and the financial and banking networks.

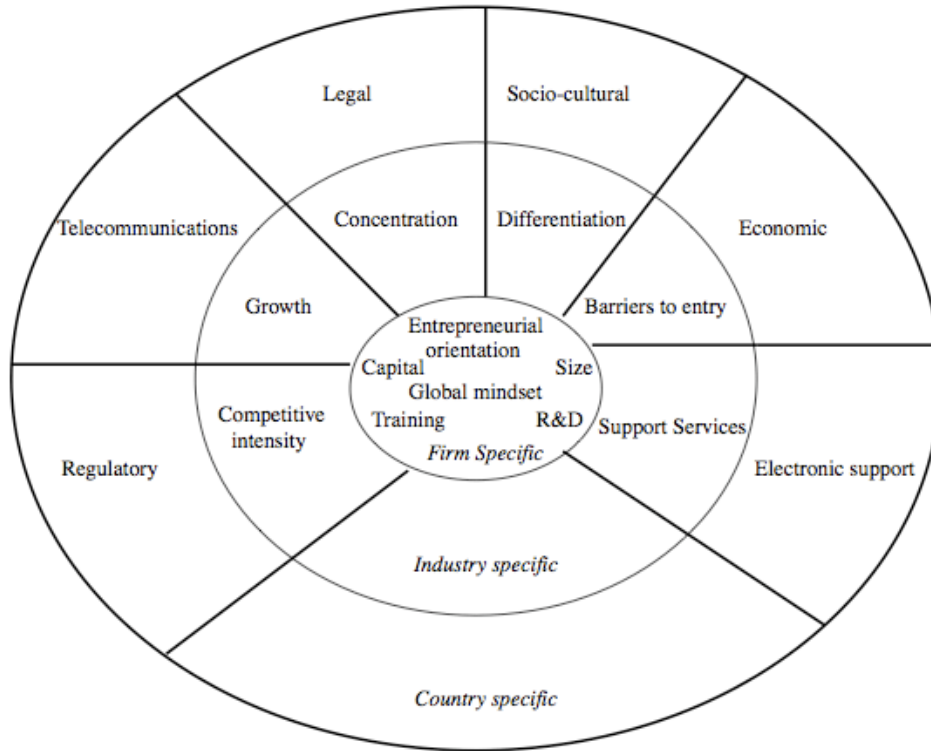
##### **2. *Industry specific challenges.***

This challenge refers to the areas of business in which the firm operates, e.g. import barriers related to specific products, the economic liberalization, the competitive intensity, or the concentration of the industry.

##### **3. *Firm specific challenges.***

Not all SMEs have the same size nor the same financial or human resources. Therefore, firm specific challenges include capital, research and development accessibility, training, and the culture of the organization (*e.g.* entrepreneurial orientation).

**Figure 1 - Country specific, industry specific, and firm specific challenges for SMEs**



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**Source:** McKee, Conant, Mokwa, & Rajan Varadarajan, 1992

## 2.2. Economical aspects of the internationalization process

### 2.2.1. Lending technologies

Academic papers have proposed conceptual frameworks to analyze SME credit availability issues, introducing the concept of lending technologies, which is defined as a “*a unique combination of primary information source, screening and underwriting policies/procedures, loan contract structure, and monitoring strategies/mechanisms*” (Berger & Udell, 2006). On broad terms, lending technologies are categorized into **transactions lending**, based on “hard quantitative” data, and **relationship lending**, based on “soft” qualitative information.

Main lending technologies available for SMEs are:

#### 1. Financial statement lending

This transactions technology is based primarily on the borrower’s financial statements. The borrower must have informative financial statements (e.g. an audited statements prepared by a reputable accounting firm according to accepted accounting standards) and a strong financial condition. This lending, reserved for relatively informational transparent firms, is mostly based on the expected future cash flow of the SME as the primary source of repayment.

#### 2. Small business credit scoring

This lending technology is based on hard information about the SME’s owner and the firm. The owner information is primarily personal consumer data combined with data on the SME collected by the financial institution and entered into a loan performance prediction model that yields a score for the loan. This transaction technology may be applied to opaque SMEs, since much of the information is based on the personal history of the owner, rather than the SME, and is mostly associated with credits under \$100,000.

### 3. Asset-based lending

In this transaction technology, the financial institutions cope the opacity problem by focusing on a subset of the firm's assets, pledged as collateral, as the primary source of repayment. For example, working capital is financially secured by accounts receivable and inventory. The main distinction of this transaction technology is that the extension of credit is based on the value of the collateral, rather than the creditworthiness of the firm.

### 4. Factoring

Factoring is a financial transaction whereby a third party, called a factor, purchases the accounts receivable at a discount in exchange for immediate money. Therefore, the overall risk of the firm less important than the value of the underlying assets and the opacity problem is addressed by focusing on the quality of the obligor, rather than the borrower.

### 5. Fixed assets lending

These technologies involve lending against fixed-assets, i.e. assets that are long-lived and not sold in the normal course of business (e.g. real estate). The fixed-assets are again pledged to the lender as collateral.

### 6. Leasing

Leasing is a very common process by which a "lender" or lessor, purchases fixed assets and then simultaneously enters into a rental contract that specifies the payment schedule with the lessee, or "borrower". Leasing is considered as a transaction technology since underwriting is based on hard information about the value of the underlying assets. It also can be used to provide financing to opaque firms since it focuses on the value of the assets being leased.

### 7. Relationship lending

Under relationship lending, the financial institution focuses on soft information gathered mainly by the loan officer through direct contact with the SME, its owner and the local community. Gathering soft information also includes communication with SME's suppliers, customers, or neighboring businesses (Petersen & Rajan, 1994; Berger & Udell, 1995).

### 8. Trade credit

Financial institutions do not deliver trade credits but its importance in business methods is an important reason to consider it as a lending technology.

### **2.2.2. The impact of lending infrastructure**

Lending infrastructures of nations have a substantial effect on the use of different lending technologies in SME financing.

By lending infrastructure we mean:

#### **A. The information environment**

Accounting standards and credible independent accounting firms are strongly required for informative financial statements and essential for lending technologies. Indeed, covenants based on financial ratios are for example irrelevant when financial statements are not reliable. Moreover, the availability of the information about companies or the industry is of crucial importance. It appears for example that SME credit scoring can only be used on a widespread basis if a strong information environment exists (Miller & Rojas, 2004). A study by Jappelli and Pagano (2002) showed that countries with stronger formal information sharing show greater bank lending relative to GNP and country-level credit risk is negatively correlated with measures of formal information sharing. It has finally been showed that good information reduces the cost and time to process loans and the numbers of defaults (Miller, 2003).

#### **B. The legal, judicial, and bankruptcy environments**

The legal, judicial, and bankruptcy environments affect business lending and the context in which loans are contracted. For example, during a commercial dispute or bankruptcy resolution, the judicial and bankruptcy environments will determine how the laws are enforced. Therefore, the quality of such an environment also impacts the confidence of contracting parties, when they enter into an agreement. For some countries, commercial laws are ambiguous and incomplete and enforcement is not predictable, increasing the country-risk and deterring foreign investments.

Credit availability is also linked to the efficiency of the judicial and bankruptcy systems and theoretical researches show that judicial inefficiency is correlated to decreased access to credit (Jappelli, Pagano, & Bianco, 2005). The use of specific lending technologies also emphasizes the judicial environment. For example, asset-based lending is predominantly used in developed nations in which companies can use company-friendly judicial, legal, and bankruptcy environmental conditions. Therefore, in opaque environments and countries with weak contract enforcement, companies will tend to use factoring and leasing because the underlying assets are not pledged as collateral but removed from the borrower and owned by the lender (Klapper, 2006).

#### C. The social environment

The social environment also affects SME credit availability and the level of trust and social capital may facilitate the writing and enforcement of contracts. This statement is particularly true for relationship lending because the relationships and the production of soft information are associated with cultural elements.

#### D. The tax and regulatory environments

Capital regulation, bank supervision and other tax and regulatory environments have significant effects on SME credit availability. Constraints on financial institution structure such as policies that affect their abilities to compete, the corporate governance structure or their market shares have also an impact on SME credit availability. Moreover, research has found that restrictions on foreign-bank entry have effects in limiting competition, with consequences for SME customers (Levine, 2003).

### **2.2.3. From the Banks' point of view, the decision making process**

Academic papers have analyzed the decision making process of banks and focused on transaction costs of supplying credit to SME, i.e. the cost inherent in maintaining a credit portfolio (Zambaldi, Aranha, Lopes, & Politi, 2011). The main theoretical contributions from Jaffee and Russell (1976) and Stiglitz and Weiss (1981) suggest that imperfect issues of information concerning the borrower's behaviour are substantial limitations on productive credit granting, potentially leading to credit rationing. Credit rationing is the "*situation in*



*which a potential borrower lacks access to credit, even though she/he agrees to pay a higher price (interest rate) for money than the price prevailing in the market'* (Jaffee & Russell, 1976). Information is therefore an important factor both for the borrower and the bank.

## 2.3. Cultural Aspects of the internationalization process

### 2.3.1. Cultural Distance

Academical researches have often analyzed many culture related issues such as:

- The impact of **business climate** on the performance of the company,
- The existence of **cultural distance** between countries, and
- **Psychic distance**, i.e. the way individuals perceive cultural differences between a home country and a foreign country.

There are indeed many differences between the ways individuals and firms perceive constraints and cultural differences in the business environment across countries and within each country, across firms (Bartelsman, Haltiwanger, & Scarpetta, 2010). Psychic distance can be reduced or increased. Knowledge is for example a factor that reduces the “psychic distance” between domestic and foreign business environments (Johanson & Vahlne, 1977). The basic idea is that differences in the business climate across countries are likely to have effects on industries although the way companies perceive business barriers vary according to many criteria: company size, economic status, geographic location, industry in which it operates, etc... For example, large businesses for which it is difficult to stay below the radar screen of public authorities may be affected by stringent labour regulations, skill shortage, and the anti-competitive effects of firms operating informally and, in general, crime and corruption. On the other side, the main perceived constraints to the operation and growth potential of small and medium-sized companies in Latin America might be crimes, corruption, macroeconomic instability, or access to financing.

As for the gap between cultures, the host-country environment is likely to generate culture-related difficulties or advantages. Indeed, companies have to deal with cultural differences at many levels of the organizations. Let us only bring the example of cultural management practices that will differ from those of the home country in which the company

operates. Such practices might be either used by the managers in the local subsidiary or be left away so that the company is able to bring its own practices that have proven to be efficient.

### **2.3.2. Impact of cultural distance on the entry mode**

As discussed here above, the Transaction Cost Theory is a good tool that helps managers to choose the entry mode of the company in the foreign market. We have seen that behavioural uncertainties, asset specificity and environmental uncertainties are factors that impact the entry mode decision of the firm. There are two other important factors presented the Transaction Cost Theory: the cultural distance generated by the language diversity, which increases external uncertainty (López-Duarte & Vidal-Suárez, 2010), and the psychic distance (Demirbag, Tatoglu, & Glaister, 2007). Let us for example bring to the fore that the role of the local partner depends on his relationship with the foreign investor, which is language dependent (López-Duarte & Vidal-Suárez, 2010). Therefore, the external uncertainty will decrease if the local partner and the SME develop strong inter-communication that will directly impact the success of the alliance development or the JV (Tallman & Shenkar, 1994). Many solutions exist to foster inter-communication. For example, a functional language of the venture must be selected and formally designed for verbal and written used. The choice of the functional language will depend on the bargaining power each party and is likely to become a control mechanism (Luo & Shenkar, 2006). Therefore, partner whose mother tongue is the functional language tend to dominate the relationship, introducing a superior-subordinate relationship in the venture (López-Duarte & Vidal-Suárez, 2010). Language barriers also disturb the international flows of information (Kogut & Zander, 1992). Indeed, misunderstandings are easily caused and the loss of theoretical skill is always present, which can potentially derive in a loss of credibility and trust between partners (Harzing & Feely, 2008). To resume, when a common language is not shared, it becomes more difficult for the local partner to play his role as a bridge between the local environment and the foreign investor. Therefore joint ventures might be preferable to wholly owned subsidiaries when the political risk of the host country is high and when the cultural differences increases. But, when language barriers do not exist, a preference for JVs will take place (López-Duarte & Vidal-Suárez, 2010). Therefore, managers should consider language diversity as a main factor influencing the entry mode choice, taking into account that such diversity has an impact on

the role played by the local partner in decreasing the external uncertainty coming from the environment of the host country. When language barriers exist, “*cooperating with a local partner aggravates the problems and costs derived from investing in a high uncertain environment*” (López-Duarte & Vidal-Suárez, 2010).

### **2.3.3. Turn cultural differences into competitive advantage**

The impact of cultural differences on the performance of the company is not always negative. On the contrary, cultural traits are likely to become a source of competitiveness if they are well targeted and used by managers. Thus, companies can respond to the challenges raised by the internationalization process through the adoption of management practices proved to be successful in the home country, but also benefit from the cultural management practices anchored in the host country. This process requires two main capacities: (1) perceive cultural traits as a source of competitiveness for the company, and (2) the competence to build management practices upon cultural traits and use them to leverage the competitiveness of the company (Tanure & Gonzalos-Duarte, 2005). The process of developing competitive management practices must be based on a solid system of values practiced by the leaders (Tanure & Gonzalos-Duarte, 2005). In each nation “*HRM are rooted in the country’s historical, political, institutional, economic, social and cultural peculiarities*” (Tanure & Gonzalos-Duarte, 2005). Each employee possesses attitudes and values that are linked to a cultural, occupational, educational and social background. Therefore, HR policies and practices are a combination of the corporate culture and the national culture of the company (Kovach, 1994). In this context, it is important to build competitiveness and efficiency upon existing cultural traits instead of transferring or adopting management practices that do not match the corporate and cultural backgrounds.

Let us finally bring to the fore the organizational reactions to the adoption of imported management ideas and practices (Caldas & Wood, 1997):

- The first reaction is called “for the English to see<sup>1</sup>”. It involves a temporary or partial adoption of the imported practices to reduce the pressures for adoption. Yet, not substantial changes are undertaken.
- The second reaction is denial. In this case, the foreign technology is not functional because of internal pressures, resistance or real incompatibility with local realities
- The third reaction is the adoption of the concept taking into account the local reality.

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<sup>1</sup>Originated with the anti-slavery law of 1831 that was a dead letter, just to show the English that action was being undertaken.

### 3. THE OPPORTUNITY FOR ETAI

#### 3.1. Company description

##### 3.1.1. ETAI

ETAI products and provides information for professionals in the Automotive Aftermarket. Originally a publisher of technical reviews with a specialization in car repair manuals for professionals, ETAI now offers digital products and software that include the former published information. This multimedia offer is comprised of three complementary product lines: **repair manuals**, **calculation software**, and **aftermarket catalogues**.

**Repair manuals:** automotive repairers need repair methods to operate on vehicles. ETAI builds databases and provides repair information collected from manufacturers. The content is made available to repairers through trade magazine and software.

**Calculation software:** Using data from catalogues and repair manuals, ETAI offers software that allows automotive repairers to price their repair services. Pricing methods takes into account a wide range of operating costs involved.

**Aftermarket catalogues:** ETAI published catalogues that allow automotive repairers to find and select the references of aftermarket parts and original equipment.

**Table 2 - Examples of products for each product line**

<b>Calculation software</b>	<b>“Atelio Chiffrage”:</b> This software includes data of 33 brands, and 1,365 models. It enables the client to search and select mechanical parts and body. It also helps to establish and modify sales quote, to see what costs would be involved for the work a prospective buyer would
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	like to have done.
<b>Repair Manuals</b>	<b>“Maintenance et Réinitialisation”</b> : Car repair manual published in two parts that presents all the information to do all the common and routine repairs.
<b>Aftermarket Catalogues</b>	<b>“Catalogue X’GLACES”</b> : catalog published four times a year, which contains the necessary tools to price the replacement of all the glasses and lens contained in the car. The annual subscription costs around 200 euros.

**Source:** InfoPro Communications, 2011

ETAI operates in an industry in which it has to deal with many different actors, namely car manufacturers, mechanics and automotive repairers (MAR), auto centers, rapid auto repairs (RAA), tire service centers (TSC), bodywork repairs (BR), and glass repairs specialists (GRS).

Each actor has a different range of activity, which varies between distributing equipment, common and routine automotive repairs, or glass repairs.

**Table 3 - Position of key market players**

	Activity			
	Routine Repair	Technical Repair	Equipment distribution	Glass
<b>Manufacturer</b>	●	●	●	●
<b>MAR</b>	●	●	○	
<b>Autocenters</b>	●	○	●	○
<b>RAA</b>	●			○
<b>TSC</b>	○			
<b>BR</b>		●		●

GRS		○		●
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**Legend:**

● Core Activity

○ Secondary Activity

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**Source:** Xerfi 700, 2011

Finally, ETAI is owned at 100% by **InfoPro Communications**, a French leading business information group.

### 3.1.2. InfoPro Communications

InfoPro Communications (or InfoPro) is a leading business information group targeting five market segments: **Industry, Automotive, Distribution and Retailing, Tourism and Business Travel, and Insurance and Finance**. It has developed a strategy based on the multimedia approach, offering products around databases, websites, trade shows and trade publications.

InfoPro offers 4 different solutions:

- **Software and Data (SD):** It has designed software packages that offer information sources and decision marking tools offered to professionals to develop their business.
- **Online Platforms (OP):** InfoPro is the second largest network of B2B websites and provides professional with online tools and services such as information websites, online directories, virtual marketplaces for buying and selling, and recruitment sites.
- **Press and Publishing (PP):** InfoPro publishes 30 trade magazines specializing in industry, automobiles, distribution, insurance and tourism and several dozen directories, guides and reference works.
- **Trade Shows and Events (TSE):** In 2009, the Group designed and organized 33 trade shows and convention and over 150 special events such as training program and conferences.



**Table 4 - Market segments, customers and brands**

Market Segment	Customers	Example of Brands
<b>Industry</b>	<ul style="list-style-type: none"> <li>• Industrial leaders and decisions makers</li> <li>• Industrial services</li> <li>• Engineering (R&amp;D, production, etc.)</li> <li>• Technical services</li> <li>• Advisory services</li> </ul>	<p>L'Usine Nouvelle (PP)</p> <p>Pétrole&amp;Gaz (PP)</p> <p>France-chimie.com (OP)</p> <p>Expogaz (TSE)</p>
<b>Automotive</b>	<ul style="list-style-type: none"> <li>• Car manufacturers</li> <li>• Repair services</li> <li>• Distributors</li> <li>• Engineers</li> <li>• Fleet Managers</li> <li>• Procurement</li> </ul>	<p>Auto-infos.fr (OP)</p> <p>Décision Atelier (PP)</p> <p>Surcar (TSE)</p> <p>Atelio Doc (SD)</p> <p>Atelio VO (SD)</p>
<b>Distribution and Retailing</b>	<ul style="list-style-type: none"> <li>• Retail chains</li> <li>• Distributors</li> <li>• Central purchasing units</li> <li>• Food industry</li> <li>• Non-food industry</li> <li>• Restaurant and catering services</li> <li>• Food service suppliers</li> </ul>	<p>Florannuaire.fr (OP)</p> <p>LSA (PP)</p> <p>LA Revue du Jouet (PP)</p> <p>Préshows (TSE)</p> <p>Salon Jouets et Jeux (TSE)</p>
<b>Insurance&amp;Finance</b>	<ul style="list-style-type: none"> <li>• Insurance companies</li> <li>• Insurance agents</li> <li>• Brokers</li> <li>• Mutual insurance companies</li> <li>• Wealth management / Fund managers</li> <li>• Banks</li> <li>• Asset management companies</li> <li>• Financial Departments</li> <li>• Advisory services</li> </ul>	<p>Argusdelassurance.com (OP)</p> <p>Jurisprudence automobile (PP)</p> <p>L'Argus d'Or (TSE)</p> <p>Patrimonia (TSE)</p> <p>Réavie (TSE)</p>

<b>Tourism&amp; Business</b>  <b>Travel</b>	<ul style="list-style-type: none"> <li>• Tour operators</li> <li>• Distributors and opinion leaders</li> <li>• Transport companies</li> <li>• Local travel service providers</li> <li>• Communication directors</li> <li>• Communication agencies</li> </ul>	Bedouk.fr (OP)  Employi Pro (OP)  MeetIn (PP)  Guides Bedouk (PP)  Prest'Ho (TSE)
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Source: InfoPro Communications, 2011

InfoPro and its main subsidiaries, namely **ETAI, GISI, IDICE, BEDOUK** and **QUORUM EXPO**, employ over 800 people and have a worldwide presence with offices in New York, Barcelona, Paris, Udine, Monaco, Tunis and Shanghai. Its 2009 revenues amounted to around €120m. The Group has grown in average by 25% annually, driven by a combination of selective acquisitions (making 18 acquisitions since its creation in 2001) and a strong organic growth. For example, ETAI was reinforced by the acquisition of 100% of Cicerone in April 26, 2011, a company that offers customers online catalogues of automotive replacement parts, and products that are used to find pieces in a set of supplier catalogues, and estimate their sales prices (InfoPro Communications, 2011).

U.S. private equity firm TowerBrook Capital Partners previously owned the Group but, on June 2007, the private equity group Apax Partners SA acquired it, acting through its investments funds and French venture capital firm Altamir Amboise. Therefore, the strong growth of the company was mainly financed through private equity and investment funds: TowerBrook Capital, from 2001 to 2007, and Apax Partners, since 2007 (Les Echos, 2011).

### 3.1.3. Main competitors of ETAI in Brazil

Before entering a foreign market, it is important to conduct a peer group analysis, i.e. the practice of comparing a firm's results to those of competitors. A corporate profile can be drawn for each competitor and specific information can be found in annual reports, stock information, official filings, financial highlights or analyses provided by brokers and financial professionals that study the company. Many online databases also provide useful information about companies.

However, the research I conducted for this thesis highlighted that the market in which ETAI wants to operate is quite obscure in Brazil. It has been very difficult to find accurate information about its competitors and impossible to find financial information on their results. Therefore, the researches that I have conducted on Factiva<sup>2</sup> or Orbis<sup>3</sup> but also on Kompass<sup>4</sup> and on the Internet did not help me to find accurate financial information of ETAI's competitors in Brazil. However, let us point out that, even in France, it is not possible to publicly obtain the P&L and balance sheet of ETAI, the company being owned by a private equity investment fund.

Though I could not provide ETAI with substantial financial information about its competitors, I was able to identify and present the companies to ETAI. During the 10th edition of AUTOMECA, the International Trade Fair of Autoparts, Equipment, and Services, I have identified four main competitors, namely, **Prána Editora e Marketing Ltda**, **Grupo Germinal Editora e Marketing Ltda**, **Editora Novo Meio** and **O Mecânico (G.G. Editora de Publicações Técnicas Ltda)**.

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<sup>2</sup>A database of international news containing 10,000 worldwide full text publications and information on company financial health.

<sup>3</sup>A database providing accounts of about 80 million listed and unlisted companies around the world.

<sup>4</sup>A database providing accounts of 2.7 million companies in 62 countries.

## 1. Prána Editora e Marketing Ltda.

Prána Editora & Marketing Ltda. was born from the union of advertisers, journalists and specialists in the automotive market. It offers 4 products:

- **Balcão Automotivo**, an automotive publication nationally distributed for free and monthly printed at over of 23,000 copies.
- **Reparação Automotiva**, a monthly publication printed at over 20,000 copies, presenting news about the automotive industry but also trade information and repair information (Dicas Técnicas).
- **Balcão dos Pesados**, a publication designed for trucks, on the same model that Balcão Automotivo.
- **Prána TV**, an online TV that aims at being a link between car manufacturers, distributors, and automotive.

## 2. Grupo Germinal Editora e Marketing Ltda.

Founded in 1989, Grupo Germinal is a direct marketing company that focuses on the automotive industry. The major brands of Grupo Germinal are:

- **Cinau**, an organization that provides market research with emphasis on the automotive industry.
- **Brasil Direto**, an organization specialized in Business Intelligence (BI) and provides various direct marketing tools (database, loyalty programs, technical Call Center).
- **Auto Reparo**, a bimonthly publication about bodywork and painting, targeted to the automotive repair industry, distributed in the whole country. It is developed in partnership with CESVI-Brazil (Centro de Estudos Automotivos).
- **Cadernos de Pesados**, a special supplement of *Oficina Brasil*; 22,000 copies are distributed per month. It targets repairers of trucks and buses, providing technical information concerning the repair of all the systems put in buses and trucks.
- **Oficina Brasil**, a monthly free trade magazine, which targets professionals in the automotive repair segment. It provides news on the automotive market but also technical information for automotive repairers. Finally the magazine contains information about auto parts available on the market.

- **Agenda do Carro**, an online free service provided in partnership with WebMotors (the largest automotive portal in the country). It was developed since 2003 to link private car owners to automotive repairers and fosters the preventive maintenance of their vehicles. The service brings together 800,000 owners of cars and 2,000 repair shops.
- **TV Oficina Brasil**, a service that offers technical training TV programs and management lessons for automotive repairers. Therefore, it gives advices to repairers on both technical and organizational problems.

### 3. **Editora Novo Meio.**

**Editora Novo Meio** is an online portal that provides information, news and trends about the aftermarket sector in Brazil. The company also publishes 4 trade magazines: **Novo varejo**, **Novo Balconista**, **Mais Automotive**, **Mais Diesel**. However, they are less focused on technical information, and target mainly retail shop professionals. But, their publishing activity in the automotive repair market makes them potential competitors of ETAI.

### 4. **O Mecânico (G.G. Editora de Publicações Técnicas Ltda)**

**O Mecânico** is a trade magazine that has been published for over 26 years, and printed at over 50,000 copies. It mainly targets automotive repairers, and other service providers involved in the automotive segment. The publication is distributed in automotive centers, gas stations, car dealers, or directly distributed by auto parts manufacturers. There is also a list of official distributors of the magazine, i.e. over 400 stores that repeatedly buy the magazine and set up their own distribution strategy (e.g. some distributors give the magazine for their clients after each deal). The contents include information about the repair of “light” and “heavy” vehicles, such as tips from manufacturers, information about new technologies, information about equipment and tools, and the latest news about the automotive and Autoparts industry. The magazine finally presents explanatory procedures for diagnosis, disassembly, installation and automotive repair. Six years ago, the magazine was acquired by the G.G. Editora de Publicações Técnicas Ltda., which publishes **O Carreiteiro**, **O Carreiteiro Racing**, and the **Anuário O Carreiteiro**.

## 3.2. Opportunity description

### 3.2.1. The identification of the opportunity

To identify the potential opportunity in Brazil and the information to analyze the viability of an internationalization process to Brazil, I first participated in the 11th International Trade Fair for Auto parts, Equipment and Services (AUTOMECE). Organized by **Reed Exhibitions Alcantara Machado**, Automece is a trade fair that gathered the main actors of the replacement industry, the auto parts, and repairs sector. It aims at facilitating the interaction between automotive actors and the consumer market, and fostering the integration of all the activities in the industry. I registered to the fair and spent two days as a visitor to better understand the products and services, the market trends, the trademarks, and the potential competitors or clients of ETAI. Approximately 70,000 visitors came to the event, and in which over 900 exhibitors represented the 4 sectors:

- Spare parts and systems,
- Accessories and Tuning,
- Repairing and Maintenance, and
- IT and management.

Appendix 2 gives more precise information on the fair.

After the AUTOMECE trade fair, I conducted market researches to provide useful information on the Brazilian market and answer the questions made during the academic part of this thesis.

### 3.2.2. Brazil, a place of vast potential

Over the past few years, Brazil became more and more important on the international stage, being nowadays a place of vast potential among emerging countries. Brazil is the largest country in the Southern Hemisphere and its area is similar to that of China or the United States. Brazil is a major new consumer market, with a population of around 194 million people (The World Bank, 2010) with new consumption ambitions. It also represents a strategic position on the South American market, which represent almost 550 million consumers. With a GDP of around 2,180 billion US dollars in 2010 (Ubifrance, 2010), Brazil is the 8th economic world behind Italy and ahead of Spain, Canada, and India. It is undoubtedly the leader of South American economies, in which it represents nearly half of the territory, population and GDP. Structural reforms are underway to eliminate economical and political barriers: the fight against deficiencies in the functioning of justice, improvement of legal and financial investment, and commitment to eradicating the culture of corruption.

The Brazilian culture is also very similar to the European culture. Firstly impacted by the Portuguese colonization, the country also witnessed many inflows of Europeans immigrants. German people settled in south Brazil while Italian people settled in São Paulo and the South-East Brazil (Ubifrance, 2010). But this melting pot goes far beyond Europe. The Brazilian culture is an aggregation of European, African and Asian cultures. Therefore, most European investors feel no “cultural shock” when coming to Brazil and blending seamlessly in Brazil seems easier than in any other of the BRICS countries. In addition, the barrier of the Portuguese language is easy to cross for Latin natives (Ubifrance, 2011).

All in all, though Brazil should not be considered as the new Eldorado, where success would be easy and immediate, among the emerging countries, this country is undoubtedly an excellent new “home” for French investors.

### 3.2.3. France and Brazil

Many French multinationals have settled in Brazil a long time ago. Rhodia arrived ninety years ago, Michelin fifty years ago, and L'Oreal has been operating in Brazil for thirty years (Le Journal des Finances, 2010). Several major French companies have followed suit. Carrefour, Casino and the two main French car manufacturers crossed the Atlantic Ocean in the eighties or nineties. 2010 is a milestone year since Brazil witnessed the arrival of small and medium companies that, given the strong protectionism policy, have understood it was easier to enter the Brazilian market by implementing a local operating unit rather than exporting to Brazil (Le Journal des Finances, 2010). Now, over “*450 French companies have settled in Brazil and French sales to Brazil rose by 51% over the first six months of 2010*” say Eric Fajol, the President of Ubifrance Office in Brazil (Le Journal des Finances, 2010).

There are many opportunities for French companies, in all the industries. Rhodia has already invested 250 million dollars over the past five years, and is about to spend more 200 million dollars by 2014 (L'Expansion, 2010). The flagship of this company is the plant of Santo Andre, located at the east of Sao Paulo, which makes this group a French expert in synthetic fibers (L'Expansion, 2010). The country is also gearing up to build the infrastructure it currently lacks. Alstom, the French multinational conglomerate that holds interests in the power generation and transport markets, is manufacturing hydraulic turbines and equipment for public transport (L'Expansion, 2010). Selling Equipment to the Brazilian military aviation is one of the biggest challenges for foreign manufacturers. The French Dassault Group is competing with Swedish and American leaders to sell fighter aircrafts to the Brazilian army, which is considered as one of the biggest contract in the world.

All in all, Brazil offers plenty of opportunities both for multinationals companies and SMEs. Therefore, it is crucial that companies be able to identify the opportunity and use it to support their growth strategy and increase their profitability.



### 3.2.4. The aftermarket and the automotive industry in Brazil

In 2010, the Brazilian automotive market became the fourth biggest automotive market in the world, just before the German market (Associação Nacional dos Fabricantes de Veículos Automotores, 2010). In 2010, sales of new vehicles<sup>5</sup> increased by 11.9% compared to 2009, reaching 3.5 million new vehicles (Sindipeças , 2011). In 2009 and 2008, the market had already increased by 11.4%, and 14.5%. In 2009, the Brazilian fleet was the ninth largest in the world, with nearly 30 million vehicles, behind France and Great Britain (Sindipeças , 2011). In 2010, 3.64 million vehicles were produced in Brazil<sup>6</sup>, making this country the sixth largest producer in the world and the largest carmaker in Latin America (Sindipeças , 2011). In this context, many foreign companies are currently investing in Brazil. On April 12, 2011, Michelin announced that, between 2012 and 2016, it would invest 800 million Euros in Brazil, in which 300 million Euros would be allocated to the production of car tires (La Correspondance Economique, 2011). In December 2010, Fiat announced it would invest an estimated 1.3 billion Euros to build a new plant in Brazil. The plant will produce nearly 200,000 vehicles per year (La Croix, 2010).

According to the Brazilian Association of Autoparts Manufacturers Sindipeças (2011), the density of the Brazilian market is 6.5 people per vehicle, which is approximately the same density observed in South Africa and Thailand. In 2010, the Brazilian operating vehicles fleet amounted to 32.5 million vehicles (Sindipeças, 2011), including 25.9 million cars. Since there are more or less 194 million people in Brazil (The World Bank, 2010), the Brazilian market is expected to grow over the next years. As highlighted by Sindipeças (2011), the fleet is expected to increase by 7.4% in 2011 and the number of vehicles in circulation is expected to reach 46.5 million units in 2015.

As regards the Brazilian Aftermarket industry, a wide range of models, and a high age profile characterize the Brazilian operating vehicles fleet. 42% of the fleet is less than 5 years old, in which 30% cent is between 4 to 5 years old. Finally 33% of the fleet is more than 10 years old. Finally, in 2010, the average age of the Brazilian car fleet is 8 years and 9 months, which might fuel the repair industry in Brazil, first clients of ETAI! Also, in Brazil,

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<sup>5</sup> Registration of new vehicles (nationally manufactured and imported)

<sup>6</sup> Total production of vehicles (assembled and CKD)

challenging driving conditions and lack of paved road might impact the aftermarket (for example, an extra stress might be put on suspension and braking systems). However, there is also little regulatory pressure for owners to service and maintain their vehicles though an annual inspection scheme has been introduced in São Paulo: *Carro 100%* (Caro 100%, 2011).

As for the repair sector, nowadays, there are approximately 92,100 workshops<sup>7</sup> around the country, employing over 700 thousand people (Carro 100%, 2011). In 2010, the reported sales of the market amounted to 29.3 BRL billion in 2010, representing an increase of 24.7% compared to 2009 results (Carro 100%, 2011). It is the industry's best performance in six years. But the repair market must also be integrated in the whole sector. Indeed, in 2010, auto parts manufacturers, distributors, and retail shops, generated more than 965 thousand jobs, and 69.2 BRL billion in sales.

All in all, remembering the initial triggers leading companies to pursue an international strategy presented by Rodrigues and Child (2007), we understand that ETAI should enter the Brazilian market because of:

- A foreign market potential for growth and profitability
- Clients in the home country that are already operating in Brazil; we saw for example in part 3.2.3 that Michelin and Fiat are making important investments in Brazil.
- A rational strategic analysis; ETAI is a subsidiary of InfoPro Communications, owned by Apax Partners, a private equity firm. Since investment fund often try to maximize the growth of the company in order to sell it after 3 or 5 years, making a good profit out of the deal, the Brazilian market offers a good growth potential for ETAI and an internationalization process could therefore be included in the strategy of the company.

Appendix 4 presents more information and figures about the Aftermarket and the automotive industry in Brazil.

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<sup>7</sup>Called “Oficinas” in Portuguese

## **4. SOLUTIONS FOR ETAI**

### **4.1. Solutions based on administrative aspects of the internationalization process**

Solutions related to the International Market Selection and the triggers that could lead ETAI to start an internationalization process have already been given in Chapter III describing the opportunity for ETAI in Brazil. Therefore, in section 4.1, we will focus on the mode of entry and the challenges of the internationalization process highlighted in the literature review.

Opening a subsidiary is often the most efficient way to produce and sell products in Brazil. First, Brazilian authorities have repeatedly tried to limit imports and foster foreign direct investment. Therefore, it is much more interesting to implement a structure in Brazil or take a stake in an existing company. This requires greater investment, certainly, but it is the only way to have a substantial project in Brazil. In this paper we present that it is still possible to enter the Brazilian market without making equity-based investments (through distributors, sales offices, or franchises) though we recommend ETAI to opt for an equity base investment.

#### **4.1.1. ETAI could opt for a non-equity-based investment...**

Companies that wish to enter the Brazilian market without giving away flexibility can opt for structures mostly based on contracts in which the sales representative is only in charge of contracting and entering into agreements in the name of and on behalf of the manufacturer. The distributor is supplied by the manufacturer and sells the products to the customer in its own name and for its own account. Finally, the franchisor transfers power to the franchisee, earning back royalties. The rights involved are brand, technology, trade secrets, and anything that might be specifically required to conduct the business activity.

The new Civil Code enforced on January 11, 2003 gives a legal framework for sales representation and distribution contracts. Specific laws were also enacted, such as the law n°8.955 (December 15, 1994), which rules franchising contracts and other outsourcing methods.

#### A. Commercial representation contract

The sales representative is authorized to solicit business for a firm and compensated through commission, salary, or a combination of both.

The sales representative is defined by the Brazilian Civil Code, under the first article of the law n°4.886 (December 9, 1965). According to the second article, each sales representative must be registered to the Regional Councils (*Conselhos Regionais dos Representantes Comerciais*). On broad terms, the contracts must integrate:

- The General conditions
- The description of products and articles sold by the representative
- The duration of the contract
- If needed, the definition of the specific area in which the representative operates,
- The compensation of the representative
- The obligations and responsibilities of each party
- An Indemnification clause in the event of a breach of contract.

#### B. Distribution contract

The purpose of the distribution contract is to enable the manufacturer to reach the client without a direct operating unit in the foreign market. The distributor agrees to purchase goods from the producer. The manufacturer, meanwhile, ensures the supply of a minimum quantity of goods to the distributor, who sells them at his peril and pays to the manufacturer the agreed price, within the agreed timeframe. The contract is not subject to a prescribed length. In case of legal dispute, the Brazilian jurisdiction will apply the enforced law in the residency of the distributor.

### C. Franchise contract

According to the law n°8.955 (December 15, 1994), the franchise agreement is a system whereby a franchisor grants the franchisee the right to use the trade mark or patent, associated with the exclusive (or semi-exclusive) right to distribute products or services and possibly also provides technical assistance to the franchisee. The franchisee directly or indirectly compensates the franchisor but the relationship is not considered as employment. Technical assistance may involve the establishment of industrial units or services, business administration and management, and distribution and marketing knowledge.

Many rules must be applied to the franchise agreement. Let us for example point out that the franchisor must provide the franchisee with a “Franchise Agreement Memorandum” (*circular de oferta de franquia*), which must contain mandatory information. All the patents and trademarks used by the franchisee must be registered to National Property Right Institution (*Instituto Nacional de Propriedade Industrial*). Finally, the Brazilian Central Bank must grant the right to pay and transfer royalties.

#### **4.1.2. ...though we recommend an equity-based investment.**

First, using transaction cost theory presented in the literature review, ETAI might want to avoid a number of specificities and uncertainties that would create additional costs.

1. Site specificity: by creating an equity-based investment in Brazil and realizing a greenfield investment, ETAI could implement its own strategy as regards the location of its business units. The latter would therefore be specifically related to the business plan of the company or the location of its potential clients.
2. Human asset specificity: we would recommend to opt for a greenfield investment in which the team in Brazil would be selected according to cultural differences and the human resource needs of ETAI. For example, ETAI might want to hire managers that will have the best skills and abilities to be in charge of the

internationalization process. Indeed, we have seen in the literature review that working abroad (for French managers) or working for a foreign firm (for Brazilian managers) required specific management skills.

3. Behavioural uncertainties: if we rely on the assumption made by Williamson and consider that agents are given to opportunism, ETAI should have strong control mechanisms to reduce behavioural uncertainties. Indeed, the products develop by ETAI are mainly programs and catalogues, which can be easily copied by competitors. Therefore, instead of working with an independent agent in Brazil, ETAI should send its own manager that will work within the mission defined by the operational unit in Brazil owned and controlled by ETAI.

Finally, InfoPro has often chosen an equity-based investment in its growth strategy. Zerba Communication (acquired in September 2010), Quorum Expo (acquired in January 2010), or Ciceron (acquired in April 2011) are examples of acquisitions that further the case for an equity-based investment in Brazil.

#### **4.1.3. Corporate forms and entry modes related to equity-based investments**

Companies that will enter the Brazilian market through an equity-based investment will have to define: (1) the corporate form of the business unit in the foreign country and (2) the type of organization (e.g. a fully owned subsidiary or a joint venture).

The aim of this thesis is not to provide a thorough description of the Brazilian corporate law and available corporate forms. Therefore, we decided to present the limited liability company (the corporate form) and 4 entry modes requiring an equity investment.

##### **A. Corporate form**

In France, the Commercial Code (*Code de Commerce*) is the main source of legislation for business law, whereas the Brazilian Civil Code has a wide scope in relation to business law. Articles from 981 à 1195 are related to business law, which is filled out by other specific laws. It appears that the limited liability company (*Sociedade limitada*, or LTDA) is

the best option to enter the Brazilian, since this corporate form offers more flexibility than the Public Limited Company (*Sociedade Anônima*, SA).

Therefore, the key points that are to be dealt with are:

- Creation
- Operation
- Transformation
- Dissolution

**Table 5 - The limited liability company**

<b>Key Points</b>		<b>Challenges</b>
<b>Creation</b>	Founders and Partners	<ul style="list-style-type: none"> <li>• Minimum number of founders (2)</li> <li>• The registration to the <i>Cadastro de pessoas físicas</i> (CPF, Natural Persons Register), a number attributed by the Brazilian revenue agency to Brazilians and foreigners who pay taxes or take part in activities that provide revenue</li> <li>• The articles of association must rule the exclusion of partners</li> <li>• The responsibility of partners, especially in case of abuse or fraud</li> </ul>
	Capital	<ul style="list-style-type: none"> <li>• Minimum capital required</li> <li>• Capital division into shares</li> <li>• Minimum amount of capital to be paid up</li> </ul>
<b>Operating</b>	Administrative and managerial body	<ul style="list-style-type: none"> <li>• The articles of association must define and rule the administrative and managerial bodies</li> <li>• A foreign company allowed to operate in Brazil is required to have a permanent representative in Brazil with powers to resolve any issues for and on behalf of the company</li> </ul>
	Supervisory body	<ul style="list-style-type: none"> <li>• The General Meeting <ul style="list-style-type: none"> <li>○ Decision majority (2/3, 75%, 50% or unanimity)</li> <li>○ Notification of the general meeting</li> </ul> </li> <li>• The Supervisory Board <ul style="list-style-type: none"> <li>○ Election of the Supervisory Board members</li> <li>○ Powers of the board</li> </ul> </li> </ul>
<b>Transformation</b>		<ul style="list-style-type: none"> <li>• Modification of the Articles of association</li> <li>• Approval of the transformation</li> <li>• The “fate” of Partners that voted against the transformation, if the transformation is decided by</li> </ul>

		the other partners
<b>Dissolution</b>		<ul style="list-style-type: none"> <li>• The dissolution and winding up process in the event of a dissolution agreed by the partners of the company</li> <li>• The registration and notification of the dissolution</li> </ul>

## B. Main entry modes

In this section we present 4 entry modes that require an equity investment.

### B.1. Permanent establishment

Any company with its headquarters abroad may open a branch in Brazil without creating a separate legal entity. However, the administrative process might be very time-consuming and costly. Instructions are given by the procedure n°81, dated January 5, 1999 (*Instrução Normativa*).

The branch and the mother company must share the same name and “*Do Brasil*” must be added to the Brazilian name of the branch. The representative of the structure must be duly authorized to act on the name and on behalf of the company, hold a permanent visa and live in Brazil. Although there is no minimum capital requirement, the responsibility is not limited to the capital of the branch but on the mother company. The local branch of a foreign company must publish its financial statements and is subjected to the same tax regime as Brazilian companies. Profits generated by the branch are supposedly distributed to the mother company. However, transfers compensating the use of trademarks and patents are prohibited.

### B.2. The Joint venture

The Brazilian law does not specifically define the joint venture. In broad terms, a joint venture is a company resulting from an agreement between two or more parties sharing a will to operate and develop a common business unit. Parties can create a greenfield company or one party can purchase shares of an existing firm. In order to limit risks, it might be better to create a new local corporation, with no debt record.

### B.3. The Consortium

The consortium is a group formed by several companies cooperating in a specific project. Far from being an independent legal entity, the consortium is ruled by a contract for a



fixed term. Companies have usually equal powers within the consortium, though one company can be chosen to represent all the others, acting with the client as a leader. It is specifically required for the leader to be a Brazilian company. Articles 278 and 279 of Law No. 6.404/76 govern the consortium. Parties answer directly for their responsibility of their obligation, with no presumption of solidarity. The creation, modification, and dissolution of the consortium are ruled by the instruction n°74/98 established by the National Trade Register Department (*Departamento Nacional de Registro do Comércio*, DNRC)

#### B.4. Mergers and Acquisitions

Acquisition is a process by which one company takes over another and clearly establishes itself as the new owner. From a legal point of view, the target company ceases to exist. A merger happens when two firms agree to go forward as a single new company rather than remain separately owned.

#### 4.1.4. Steps prior to the registration of the company

Let us remember that the first objective of this thesis is to provide a French SME with the information needed to analyze the viability of an internationalization process to Brazil. We already have suggested that ETAI should make an equity-based investment in Brazil, providing information about the limited liability corporate form in Brazil, and 4 entry modes available to make an investment. As shown in the third part of the thesis presenting the opportunity and the market in which ETAI wants to operate, it appears that it is very difficult to obtain financial information about ETAI's main competitors and potential acquisition targets. Therefore, providing information as regards mergers and acquisitions in this very obscure market could be irrelevant. Consequently, we decided to provide information about a greenfield investment in which ETAI registers a company in Brazil. In order for the company to analyze the viability of an internationalization process to Brazil, it should therefore have useful knowledge on administrative procedures required to register a company.

The next sections present the steps prior to the registration of the company, the registration procedure, and other important procedures.

**A.** Find a property to establish the headquarters of the subsidiary

Before buying or renting a building, warehouse or office, it is required to obtain a preliminary authorization of the *Inspetoria Regional de Licenciamento e Fiscalização* (IRLF), organization attached to the *Secretaria Municipal da Fazenda*. This authority provides the clearance that an activity can be exercised in the specific location of the property, according to zoning laws. This procedure is also called *Consulta Prévia do Local*.

Some companies provide registered address in Brazil. This service helps companies that want to quickly enter the Brazilian market and postpone the decision to locate the headquarters of the subsidiary in a specific location. Let us highlight that the duration of business leases varies between 30 months to five years and that it is mandatory to mention the address of the company in the Articles of Association. Therefore, “virtual” registered office might help the company starting the business in the host country, while maintaining flexibility to negotiate the terms of the commercial lease.

**B.** Check the name of the company

The name of the company is likely to be already used in the host country. Therefore, it is advisable to do name researches with the *Junta Commercial* of the state in which the company will be registered.

Name registration gives the holder the exclusive use, but only within the geographical limits of the state in which the company is settled. If the company wants to broaden the protection of the name to the entire country, the name of the company must be registered to all the Register of Companies of Brazil.

**C.** Write the Articles of Association (*Contrato Social*)

This contracts between the partners defines and delimits the rights and obligations of the partners, the appointments of directors, the issuing of shares, the valuation of intellectual rights, the quorum and percentage of vote, the existence of special voting rights, the winding up, etc.

Let us bring to the fore two requirements concerning the Articles of Association:

- The director must be a Brazilian citizen or a foreigner holding a permanent visa.

- At least two partners are required. They can be foreign individuals or companies living abroad. However, foreign partners that do not live in Brazil must elect an authorized representative with the power to file the articles to the Register of Companies of the state in which the company has its headquarters and to receive court summons in the name and on behalf of the foreign partner.

#### **D. Registration of foreign partners with the Brazilian Central Bank (BACEN) and the Federal Inland Revenue**

The foreign partner (individual or corporate), also named "foreign investors", must be registered with the Central Bank. In september 2001, the registration process was computerized. The lawyers and / or accountants now execute this legal procedure during the creation of the company. The Brazilian Central Bank Information System (SisBacen) centralizes all the information and track records about the import, export and financial transactions. Therefore, the registration is compulsory but also essential; it will for example allow the repatriation of investment (if any) and the foreign distribution of dividends. Partners registered are given an individual number, also named the Cademp.

When the Cademp is obtained, the legal entities domiciled abroad that are required to be enrolled with Cademp shall obtain the enrolment with CNPJ (*Cadastro Nacional de Pessoa Jurídica*, or National Directory of Legal Entities).

Partners that are not legal entities shall obtain the CPF (*Cadastro de Pessoas Físicas*, or Natural Persons Register)

#### **4.1.5. The registration of the subsidiary with the Register of Companies and the competent tax authorities**

##### **A. The registration of the Articles of Association to the Register of Companies**

The National Department of Trade Register (*Departamento Nacional do Registro do Comércio*, DNRC) controls the national register of companies (*Sistema Nacional de Registro de Empresas Mercantis* or, SINREM). Companies must be registered in order to obtain an identification number (*Número de Inscrição no Registro Comercial*, or NIRE).

##### **B. Registration to the *Cadastro Nacional da Pessoa Jurídica* (CNPJ)**

The CNPJ (*Cadastro Nacional da Pessoa Jurídica*) number consists of 14 digits that identify a legal entity. It is a tax number assigned to legal persons by the federal tax authorities. It must be asked within 30 days after its registration with the Register of Companies (*Junta Comercial*), to the Federal Inland Revenue (*Receita Federal do Brasil*, RFB).

##### **C. Registration of foreign capital**

Within 30 days after its “arrival” in Brazil, foreign capital must be registered to the Brazilian Central Bank (Bacen), which will issue a certificate of registration reflecting the amount invested in foreign currency and the corresponding amount in Brazilian currency. To do so, the company must obtain a number from the Electronic Declaratory Registry of Direct Foreign Investment (RDE-IED) through the Information System of The Central Bank (SISBACEN). This number must be indicated in any exchange agreement related to foreign investments. Let us point out that if the company receiving foreign investment does not register the capital with the BACEN, the repatriation of capital would then not be allowed. There are no registering requirements if the investment comes from Brazil.

##### **D. The registration to the INSS and the FGTS**

Companies are required to contribute to the National Institute of Social Security (*Instituto Nacional da Seguridade Social* or INSS) to cover social security payments. Companies are also obliged to make monthly contributions to the Severance Pay Indemnity Fund (*Fundo de Garantia do Tempo de Serviço* or FGTS) and must therefore be registered in this organization.

#### 4.1.6. Other registration procedures

##### A. REI and RADAR

Before entering into cross border trade transactions, importers and exporters in Brazil are required to register with the Chamber of Foreign Trade (*Secretaria de Comércio Exterior* or SECEX) to obtain an Exporter and Importer Registration (Registro de Importadores e Exportadores or REI). Companies must also be registered with the RADAR (RADAR - Registro e Rastreamento da Atuação dos Intervenientes Aduaneiros). Both the REI and the RADAR registrations will allow companies to access the Brazilian Electronic Foreign Trade System (SISCOMEX, or *Sistema Integrado de Comércio Exterior*), the managing system of the Brazilian foreign trade that helps registering, following and controlling all different steps of importing and exporting operations.

##### B. Fire Department Inspection request

The fire department must approve the headquarters safety equipment. The certificate is called *Certificado de Aprovação e Laudo de Exigências do Corpo de Bombeiros*. The company must buy the required equipment and then ask a certification label to the National Institute of Metrology, Standardization and Industrial Quality (*Instituto Nacional de Metrologia, Normalização e Qualidade Industrial*, or Inmetro).

##### C. Registration with the Brazilian Patent and Trademark Office (INPI)

The company must register with the Brazilian Patent and Trademark Office (INPI) to protect trademarks, patents, technology, etc.

##### D. Unions

Pursuant to labor law, registration with the employees union is mandatory and ensures that the company is obeying employee labor rights. Therefore, employers must pay annual contributions to their respective unions (*Contribuição Sindical*) and each municipality and state must have unions that represent the activities performed by the company.

E. The operations permit (*Alvará de Licença para Estabelecimento e Inscrição Municipal*)

The operational license is a prerequisite for the company to begin operations. Therefore the company has to apply for the operations permit by filling out the proper forms and submitting the required documents.

F. The authorization to print receipts/invoices (*Notas Fiscais*) from the Secretaria da Fazenda Estadual (Autorização de Impressão de Documentos Fiscais, or AIDF)

Once the company is registered with federal and state tax (*Secretaria da Receita Federal do Ministério da Fazenda*), a specific form (known as the AIDF) must be presented to that authority.

#### **4.1.7. The main challenges ETAI should analyze before entering the Brazilian market**

In the literature review, we presented the main challenges faced by companies trying to enter a foreign market. Those challenges were classified into three categories: country specific, industry specific and firm specific issues. Since information related to industry challenges was presented in Chapter 3 (e.g. the description of the main competitors and their products), let us here highlight country specific challenges that could help ETAI analyzing the viability of its internationalization project.

Even though Brazil is making great progresses that diminish the risks perceived by foreign investors, the country still has to deal with many challenges: bureaucracy, corruption, taxation, education, the rise of the Real, and a prohibitive cost of credit. It seems very important to bring these challenges to the fore since the literature review suggested that infrastructures such as the tax and regulatory environments, the social environment, or the legal and judicial environments have a substantial effect on the use of lending technologies but also on the competitiveness of a company.

### A. Bureaucracy

Creating a company in Brazil is still very complex and time-consuming. According to the World Bank (2010), it takes on average 120 days to start a business<sup>8</sup> in Brazil. In OECD countries, the same process takes only 13 days on average. The Labour Code is another source of difficulties for companies. For example, let us only bring to the fore the requirement that the workforce of a company be composed of at least 2/3 of Brazilian employees. Therefore, the complexity of administrative and legal processes leads companies to pay for costly and specialized intermediate services. While the attorney coordinates the formation of the company and assists it with the various steps required to set up a business, a person known as “*Despachante*” or facilitator assists the company with getting things done in Brazil. He or she is like a personal dispatcher, buyer, or runner, who will obtain official documents waiting in long lines, knowing the city clerks, politicians, custom agent, etc.

### B. Corruption

Corruption is arguably widespread in Brazil and scandals are frequent. The Corruption Perception Index (CPI), published by Transparency International (TI) since 1995, has declined over the last ten years but less than the global average, decreasing from 4.4 in 2000 (46/91) to 3.7 in 2010 (69/179). In 2005 and 2009 the Workers' Party (PT, a democratic socialist political party) was accused of paying bribes and kickbacks to members of other parties to ensure their support in parliament. Serious evidence for slush funding and bribes-for-votes was presented, and members of the party suffered a sequence of corruption accusations. Starting November 2009, a major corruption scandal forced the governor of Brasilia into leaving the Democrats, a centre-right political party in Brazil.

### C. Taxation

Taxation in Brazil is said to be very complex and its rates are high. Payroll taxes are almost equivalent to the wages, which represent a serious burden for production costs.

### D. The rise of the Real

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<sup>8</sup> “Time required to start a business is the number of calendar days needed to complete the procedures to legally operate a business. If a procedure can be speeded up at additional cost, the fastest procedure, independent of cost, is chosen”. The World Bank. (2010). *Doing Business*.



Over the past few months, the Brazilian real has repeatedly reached high levels, and financial investors and analysts feared that a strong Brazilian currency would jeopardize the competitiveness of Brazilian economy. In July 2011, Guido Mantega, finance minister, warned that the world was on course for a “Currency War” turning into a “Trade War”, arguing that Brazil needed to prepare new measures to prevent further appreciation of its currency, and claiming that China and the US were among the worst offenders (Agence France Presse, 2011). Since speculators are still betting on a rising real against other currencies, Brazilian exports may be negatively affected and, on the contrary, imports could flow into Brazil. The other negative effect of a strong Brazilian currency is the increasing cost of living in Brazil, which is becoming the most expensive country in Latin America, especially in large cities (O Estado de São Paulo, 2011).

#### E. Education and the lack of skilled labour

The Education for All Global Monitoring Report, published by the UNESCO (2010), brings to the light that education in Brazil may have worsened in the past few years. Despite the investment of the Brazilian Government in education, a survey of CGU (Controladoria-Geral da União, or Brazilian Inspectorate-General) carried out in 2010 and involving 59 municipalities has revealed that 25% of the federal budget for compulsory education was used to overcharge for services or to bail out other municipal budgets.

The Brazilian Government tried to implement effective programs, such as “*Bolsa Família*”, a social welfare program that provides financial aid to poor Brazilian families provided that families who have children ensure that the infants attend school and are vaccinated. Therefore, the main objectives of “*Bolsa Família*” are to reduce poverty on the short term, distributing money, and interrupt the cycle of poverty from one generation to another.

Many experts are concerned about education in Brazil, and its impact of future growth. As regards managers and executives, some experts state that, nowadays, the most expensive resource in Brazil might be the human resource (Le Figaro, 2010), since companies are struggling to find and hire skilled workers and managers.

The table below presents business related indicators provided by the World Bank.

**Table 6 - Indicators of the World Bank**

<b>Starting a business (rank)</b>	<b>128</b>	<b>Getting credit</b>	<b>89</b>
Procedures (number)	15	Strength of legal rights index (0-10)	3
Time (days)	120	Depth of credit information index (0-6)	5
Cost (% of income per capita)	7.3	Public registry coverage	26.9
Minimum capital (% of income per capita)	0.0	Private bureau coverage (% of adults)	53.5
<b>Dealing with construction permits (rank)</b>	<b>112</b>	<b>Praying taxes (rank)</b>	<b>152</b>
Procedures (number)	18	Payments (number per year)	10
Time (days)	411	Time (hours per year)	2,600
Cost (% of income per capita)	46.6	Total tax rate (% of profit)	69.0
<b>Registering property (rank)</b>	<b>122</b>	<b>Enforcing contracts (rank)</b>	<b>98</b>
Procedures (number)	14	Procedures (number)	45
Time (days)	4.2	Time (days)	616
Cost (% of property value)	2.7	Cost (% of claim)	16.5
<b>Trading across border (rank)</b>	<b>114</b>	<b>Closing a business (rank)</b>	<b>132</b>
Documents to export (number)	8	Time (years)	4.0
Time to export (days)	13	Cost (% of estate)	12
Cost to export (US\$ per container)	1,790	Recovery rate (cents on the dollars)	17.1
Documents to import (number)	7		
Time to import (days)	17	<b>Protecting investors (rank)</b>	<b>74</b>
Cost to import (US\$ per container)	1,730	Extent of disclosure index (0-10)	6
		Extent of liability index (0-10)	7
		Ease of shareholder suits index (0-10)	3
		Strength of investor protection index (0-10)	5.3

Source: World Bank Doing Business 2011  
 More information on [data.worldbank.org](http://data.worldbank.org)

## **4.2. Solutions based on economical aspects of the internationalization process**

### **4.2.1. How can ETAI finance the internationalization process?**

As seen in the description of ETAI and InfoPro Communications, the growth of the company was mainly financed through private equity and investment funds: TowerBrook Capital, from 2001 to 2007, and Apax Partners, since 2007 (Les Echos, 2011). However, it is not clear whether or not Apax Partners should use its capital to finance the internationalization process of ETAI in Brazil. Therefore, for the company to analyze the viability of its international project, we identify the main financial institution and organization in France and in Brazil that could finance the growth of ETAI abroad.

#### **A. French organizations**

##### **a. Ubifrance**

Ubifrance is the French agency for export promotion. Ubifrance mission is to assist French companies during their internationalization process and the development of their projects in Brazil. Ubifrance proposes a wide range of services, such as: (1) consulting services and information about local opportunities and market knowledge, (2) contacts in the host country, (3) organization of meetings.

Ubifrance is also in charge of Sidex, a financial support for French SME during their first exploration of the foreign market.

##### **b. The French Chamber of Commerce and Industry in Brazil (CCFB)**

The French Chamber of Commerce and Industry in Brazil has offices in Rio de Janeiro, Sao Paulo, Belo Horizonte and Curitiba. Its main purposes are to develop economic, financial, commercial, industrial, technologic and social connections between France and Brazil. It has nearly 800 members including individuals, French and Brazilian companies of

all sizes and industries (CCFB, 2011). In partnership with the Economic Missions and Ubifrance in Brazil, the CCFB's mission is also to assist French companies during their internationalization process in Brazil and Brazilian companies looking to explore the French market.

Finally, the CCFB organizes professional events. CCFB Express provides international and national express mail and packages. In addition the CCFB implemented a Human Resource Management service, which helps companies finding and recruiting managers throughout Brazil. The CCFB receives job opportunities from French and Brazilian companies but also possesses a strong database of potential candidate, from all nationalities.

#### c. The French Development Agency

The Agence Française de Développement (AFD, or French Development Agency) is a public institution providing development financing to sustainable development projects carried out by public companies, government local authorities, and the private and associative sectors. Projects mainly focus on urban development and infrastructures, rural development, industry, financial systems, education and health. In 2010, AFD's financing activity amounted to €6.8 billion of financing, increasing by 11% compared to 2009 (AFD, 2011).

Proparco is another investment company, part of the AFD Group, and specialized in financing the private sector in emerging countries, offering a wide range of financial products (loans, guarantees, equity participation). Proparco finances economically viable projects, socially conscious, environmentally friendly and financially profitable. It has an office in Sao Paulo.

#### d. Coface

The main source of financing for companies in the world is neither debt nor financial investment but trade credit, i.e. the approval for delayed payments for purchased goods. The private activities of COFACE consist in insuring, protecting and financing trade credit. But, alongside its private activities (credit insurance, factoring, receivables management and others), Coface manages, on behalf of and with the guarantee of the French government, a broad range of guaranties designed to promote and support French exports. By ensuring risk that are not insurable in the private market, it aims at supporting companies exploring international markets, opening offices abroad, or selling goods and services in foreign

countries. Coface collect premiums and pay claims on behalf of the government, which defines the underwriting policy and strategy. Therefore, 5 financial products are managed by Coface:

- Prospecting Insurance covers the risk of failure or insufficient success of companies exploring foreign markets. It enables the company to increase the amortization of the costs incurred and decrease the financial burden of prospecting effort;
- Credit Insurance, which guarantees the implementation of major projects abroad against commercial, political or catastrophic risks;
- Investment Insurance, which covers French companies making investments abroad (and banks financing their investments) against political risks;
- Foreign-exchange Insurance, which allows any company to enter into an agreement without being exposed to foreign currency fluctuations;
- Pre-financing and Surety Insurance, which covers guarantors and banks which financing exports against the risk of default by the exporter.

Coface has an office in São Paulo, namely *Coface do Brasil*, and is also a shareholder of the Brazilian credit insurer SBCE, based in Rio de Janeiro.

e. Oseo

The presentation of Oseo is given by its internet website:

*“OSEO, is a public-sector institution dedicated to economic development — and a key source of financing and other support for SMEs. Our mission is to back innovation and growth of SMEs at decisive phases in their development: start-up, innovation, growth and business transfer via buyouts or other structures. By sharing risks, we make it easier for SMEs to access bank and private-equity financing. OSEO offers institutions and banks involved in SME financing both consultancy services and technical support, drawing on its long and varied experience in the field.”*(Oséo, 2011).

Oseo reports to both the ministry for the Economy, Finance and Industry, and the Ministry for Higher Education and Research and offers three major business lines focused on helping SMEs’ development:

- Innovation support and funding,

- Guarantees for bank loans and equity contributions, and
- Financing for investments and working capital requirements

In 2010, Oseo financed and supported over 80 000 French companies, totaling €29.6 billion for subsidies and grants, loan guarantees, direct co-financing and short-term financing of receivables. Oseo is currently financing projects in Brazil, focusing on technological partnerships between French and Brazilian companies (Oséo, 2011).

## B. Banks and Financial Institutions

### a. Inter-American Development Bank (IDB)

Established in 1959, the IDB is one of the largest source of development financing for Latin America and the Caribbean, on one side supporting efforts to reduce poverty and inequality and, on the other, fostering economic development acting as a regular bank. It has developed strategies for four sector priorities:

- Social policy for equity and productivity;
- Institutions for growth and social welfare;
- Competitive regional and global international integration; and
- Protection of the environment, response to climate change, promotion of renewable energy and ensuring food security.

Brazil is IDB's founding member and the most active and largest shareholder with 10.75% of share capital and voting rights (IDB, 2011).

### b. Brazilian Development Bank (BNDES)

The Brazilian Development Bank (BNDES) was established in 1952 and is today the main financing agent for development in Brazil. Its operation and financing strategy has evolved with the socio-economic challenges of Brazil, stimulating the expansion of the industry and the infrastructures in the country. Providing financial support mechanisms to Brazilian companies of all size and industry, it emphasizes three main strategic factors: innovation, local development and socio-environmental development. The BNDES system is composed of FINAME, BNDESPAR, and BNDES Limited.

### c. Financiadora de Estudos e Projetos (FINEP)

The Financiadora de Estudos e Projetos (FINEP) is an organization under the control of the Brazilian Ministry of Science of Technology, devoted to promoting economic and social development of Brazil through the public support for science, technology and innovation in companies, universities, technological institutes and other public or private institutions. FINEP operates mainly by direct financing of studies and projects, running its credit operations almost exclusively with funds obtained from third parties.

#### d. Others

Other financial institutions may provide investment, e.g. the World Bank and the CAF (the financial institution, established in 1970, that supports sustainable development and regional integration in Latin America). However, these institutions are mostly designated to finance major projects in the areas of infrastructure, education, health, sanitation, environment, rural poverty and social protection. These institutions are therefore less attractive to the French SME for which this thesis is dedicated.

#### C. Short-term financing

In Brazil, about 80% of short-term credit is generated by private and publicly-owned retail banks; the main institutions being Banco do Brasil, Bradesco, Santander and Itau.

**Table 7 - Average annually rates applied by the Brazilian Central Bank<sup>9</sup>**

Type of financing	Rate
Liquidity credit <sup>10</sup>	29,2%
Investment credit <sup>11</sup>	17,7%
Overdraft <sup>12</sup>	92,4%
Discount <sup>13</sup>	40,9%

Source: Brazilian Central Bank (May 2011)

**Table 8 - Average annually Interest Rate applied by the six biggest Brazilian Banks<sup>14</sup>**

Credit	January 2011
Cheque especial (Individual overdraft)	6,69% and 9,24%
Personal credit	2,06% to 5,07%
Auto loan	1,60% to 2,02%
Consumer credit	1,79% to 5,40%

Source: QualiCred, Ubifrance, January 2011

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<sup>9</sup> From March 2010, to March 2011

<sup>10</sup> Or « Capital de giro», monthly mean between March 2010 and March 2011

<sup>11</sup> or « Aquisição de bens », monthly mean between March 2010 and March 2011

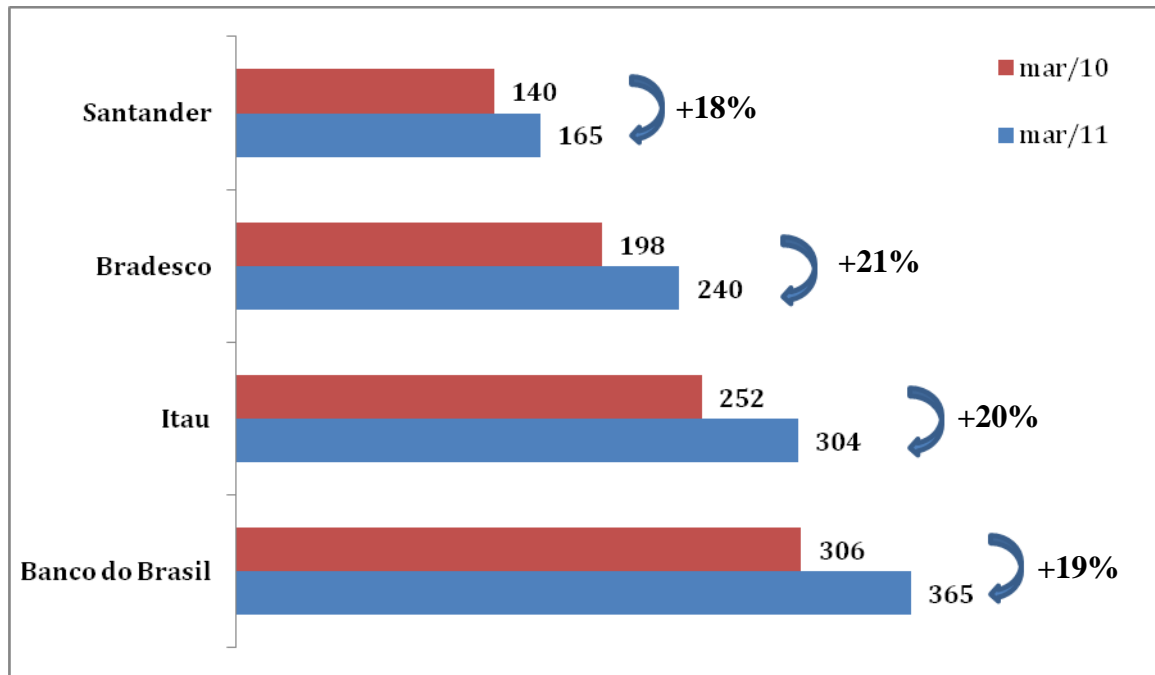
<sup>12</sup> Or, « Contagarantida », monthly mean between March 2010 and March 2011

<sup>13</sup> Or « Disconto », monthly mean between March 2010 and March 2011

<sup>14</sup> Itau, Banco ofBrazil, Bradesco, Santander, Caixa Economica Federal, HSBC



Figure 2 - Credit portfolio of main banks at March 2011 and March 2010 (BRL billion)



Source: companies' Annual Report

#### 4.2.2. Important factors in the decision making process of credit granting for Brazilian Banks

In the literature review, we argued that imperfect issues of information concerning the borrower's behaviour are substantial limitations on productive credit granting, potentially leading to credit rationing. But how is the situation in Brazil? If ETAI want to analyze the viability of its internationalization process in Brazil, it should gather some information about credit granting in Brazil from the banks' point of view. For example, in Brazil, Pinheiro and Moura (2001) argued that Brazilian SME usually keeps a debt relationship with only one bank to keep their credit information private. It also appears that Brazilian financiers classify the

credit market according to two main criteria: the availability of information about borrowers and the loan size. Therefore, three segments are generated from this classification:

- The retail market: “*small loans, high interest rates, and decision processes relying on negative information*”
- The middle market: bank use internal information of their relationships with borrowers to make lending decisions, and
- The large corporation market: companies provide accounting records and alleviate information asymmetry.

Zambaldi, Aranha, Lopes, and Politi (2011) suggest that, in Brazil, “*small firms face credit rationing and that low risk credit contracts with liquid collateral are their primary source of credit*”. They also emphasize the importance of private information captured by the bank through lending relationships with borrowers, affecting the final credit granting decision. Also, the use of relationship banking information is likely to inhibit a massive expansion of supply of credit to small firm, particularly to large banks, for which implementing a complex structure to provide relationship lending on a large remains costly (Berger & Udell, 1995). Therefore, the challenge for private financial institutions in Brazil is to expand credit operations to micro, small and medium-sized firms, which, according to SEBRAE, constitute the vast majority of enterprises in Brazil.

This academics results were not included in the literature review because they help ETAI understanding the credit granting situation in Brazil and the aspects of the company that are pointed out by bank, i.e. private information, strong relationship between companies and banks, and credit rationing faced by small companies due to the inability of banks to implement less costly structures providing credit to SME.

### 4.2.3. Information on the costs incurred when operating in Brazil

Establishing a budget is a difficult task and the internationalization process of SME often conducts to numerous costs that had not been forecasted. In order to provide useful information that would enable ETAI to analyze the viability of its internationalization process to Brazil, we present 4 main costs generated when operating in Brazil: **Transport costs, Salaries, Operating costs, and Lifestyle costs.**

#### A. Transport costs

**Table 9 - International Flights (before Tax)**

<b>Flight (round trip)</b>	<b>High Season (USD)</b>	<b>Low season (USD)</b>
São Paulo – Buenos Aires	From 360 to 540	From 210 to 360
São Paulo - Paris	From 1,180 to 1,675	From 850 to 1,180
São Paulo – New York	From 1,000 to 1,650	From 750 to 1,650
Rio de Janeiro - Paris	From 1,180 to 1,675	From 850 to 1,150

Source: Ubifrance, 2011

**Table 10 - Domestic Flights (before Tax)**

<b>Flight (round trip)</b>	<b>Full price (USD)</b>	<b>Discount price (USD)</b>
Rio de Janeiro - Brasília	From 300 to 550	From 95 to 175
Rio de Janeiro - São Paulo	From 195 to 410	From 80 to 200
São Paulo – Brasília	From 220 to 480	From 130 to 350
São Paulo – Recife	From 400 to 770	From 270 to 770

Source: Ubifrance, 2011

**Table 11 - Others**

Rio de Janeiro – São Paulo by bus (round trip)	Around 100 EUR
Rental car	From 40 EUR to 110 EUR per day
Metro (1 ticket)	2,90 BRL in São Paulo / 2,50 BRL in Rio de Janeiro
Bus (1 ticket)	3,00 BRL in São Paulo / 2,50 BRL in Rio de Janeiro
Taxi: City Center – Galeão Intl. Airport (RJ)	50 BRL
Taxi: City Center – Guarulhos Intl. Airport (SP)	90 BRL
Taxi: City Center – Pdte. Juscelino Kubitschek Intl. Airport (Brasília)	50 BRL
Hotel Room in Brasília	Around 120 EUR per night
Hotel Room in Rio de Janeiro	From 90 EUR to 450 EUR per night
Hotel Room in São Paulo	From 90 EUR to 280 EUR per night

Source: Ubifrance, 2011

B. Salaries

**Table 12 - Monthly Salaries Estimation in Rio de Janeiro (RJ) and São Paulo (SP)**

Post	Salary (BRL)
Chief Finance Officer	From 11,000 to 33,000
Chief Sales Officer	From 6,900 to 39,000
Chief Marketing Officer	From 12,000 to 28,000

Senior Engineer	From 6,000 to 22,000
Junior Engineer	From 3,300 to 8,000
Chief accountant	From 5,000 to 22,000
Commercial assistant	From 1,200 to 5,900
Marketing Assistant	From 1,800 to 6,000
Sales supervisor	From 1,400 to 8,200
Sales representative	From 1,200 to 3,000
Executive secretary	From 2,200 to 5,800
Junior secretary	From 1,300 to 2,800
Security guard	From 1,200 to 3,200
Workman	From 800 to 2,200
Messenger	From 600 to 1,200
Cleaner	From 600 to 1,200

Source: Ubifrance, 2011 and Bolsa de Salários, Datafolha, December2010

### C. Operating costs

**Table 13 -Indirect Materials**

<b>Material</b>	<b>Price (EUR)</b>
Electricity	0,15/kWh
Running Water	0.3/m <sup>3</sup>
Gas	1.3/m <sup>3</sup>
Oil:	
• Gasoline	1.1/liter

<ul style="list-style-type: none"> <li>• Diesel</li> </ul>	0,6/liter
<ul style="list-style-type: none"> <li>• Alcohol</li> </ul>	0,8/liter

Source: Ubifrance, 2011

**Table 14 - Estimation of office supplies prices**

<b>Office equipment</b>	<b>Price (EUR)</b>
Telecommunication (per minute)	To USA: 0.30 To Europe: 0.62 To Latin America: 0.42 Local Call (Rio/Rio): from 0.01 to 0.07 National Call (Rio/Other): from 0,07 to 0,20
Internet and telephone package	
<ul style="list-style-type: none"> <li>• 5 mega + 2 sets</li> </ul>	55/month
<ul style="list-style-type: none"> <li>• 10 mega + 4 sets</li> </ul>	85/month
<ul style="list-style-type: none"> <li>• 20 mega + 4 sets</li> </ul>	156/month
Microcomputer	Around 900
Printer	
<ul style="list-style-type: none"> <li>• Ink jet</li> </ul>	Starting at 130
<ul style="list-style-type: none"> <li>• Laser</li> </ul>	Starting at 250
Scanner	Starting at 110
Fax machine	Starting at 130
Photocopier	Starting at 450

Source: Ubifrance, 2011

**Table 15 - Other services**

Service	Price (EUR)
<b>“Despachante” to obtain a visa</b>	From 1,500 to 3,000
<b>Lawyer</b>	Starting at 150/hour
<b>Interpreter</b>	Half day (max 3 hours): 270  Full day (max 6 hours): 520  After 6 hours: 50/additional hour

Source: Ubifrance, 2011

D. Lifestyle costs

**Table 16 – Estimation of prices for services**

Service	Price (EUR)
Medical consultation <ul style="list-style-type: none"> <li>• General practitioner</li> <li>• Specialist</li> </ul>	Around 90  From 150 to 210
Tuitions fees at the French High School (Rio de Janeiro) <ul style="list-style-type: none"> <li>• Kindergarten</li> <li>• High School</li> </ul>	525  695
Price of an annually subscription to a gymnasium (per person)	1,100
Average price of a business meal (per person)	From 40 to 70
Tickers for theaters	34
Tickets for cinema	9

Annual subscription TV + Telephone + Internet 5 Mega	From 70 to 100
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Source: Ubifrance, 2011



### **4.3. Solutions based on cultural aspects of the internationalization process**

#### **4.3.1. How can ETAI use cultural distance as a competitive advantage?**

In this thesis, we try to show how Brazilian cultural traits are also a source of competitive and effective management practices, basing our arguments on academic papers. According to Tanure & Gonzalos-Duarte (2005), the 3 main cultural traits are: power concentration, personal relationship and flexibility. We decided not to include these findings in the literature review since they were solutions presented to ETAI as regards the Brazilian culture, and aspects that can be used to leverage competitiveness.

##### **1. Power concentration**

An important feature of the Brazilian culture is hierarchy. Authoritarianism can for example be seen as a direct consequence of this cultural trait, when the relationships between the state and people were characterized by authoritarian attitudes (Rodrigues, 1996). An empirical evidence of such cultural aspects can be seen in how power concentration has been replicated in Brazilian companies (Tanure, 2004).

##### **2. Personal relationship**

Let us for example bring to the fore that Brazilian people are renowned for their friendliness of relations, hospitality and the inclusion of the personal dimension in professional relations. To understand the importance of relationships in the Brazilian society, one must know that “*Families were centralized on the father figure and regulated by blood and affective relationships*” (Freitas, 2004). Brazilian people therefore feel rather uncomfortable in impersonal and formal situations, and try to create a climate of intimacy with strangers as a means of shifting from the unfamiliar to the familiar (Rodrigues, 1996).

As a consequence, the magnetism of a specific individual is highlighted by his relationships. Also, the fear of erring and the fear of not being recognized can be both a source of negative performance but also a quest for self-actualization (Freitas, 2004). Finally, loyalty is a key factor of social cohesion and the leader must assume his role of interconnection between the different groups and provide security in exchange of loyalty.

### 3. Flexibility

Tanure and Gonzalo-Duarte (2005) have written a very good overview of the Brazilian flexibility. The text has been reproduced in the appendix 1. Let us only emphasize some key points in the text:

- The “Brazilian jeitinho” is an intermediary path between what is and what is not allowed.
- Brazilian relationships are mainly informal; for example, an informal communication language expresses this aspect.
- Affectivity is an important factor of the Brazilian flexibility
- Flexibility reflects adaptability and creativity.

### **4.3.2. How can ETAI develop a strong network in Brazil and France to strengthen its position in Brazil?**

As shown in the academic papers, the national and international networks and all contacts of an organization are key success factors of the internationalization process. Thus, to provide a solution to SMEs, we have established a list of contacts in France and Brazil that may be useful for ETAI and its leaders. Therefore, we have identified three main types of contacts:

- A. Organizations in France
  - a. Government institutions
  - b. Financial organizations
  - c. Other organizations
- B. French Organizations in Brazil
  - a. Institutions
  - b. Banks and other financial institutions
- C. Brazilian Organizations

We have reproduced the contact list in appendix 3.

## 5. CONCLUSION

This study started with four specific objectives that guided the whole development:

1. **Provide a French SME with the information needed to analyze the viability of an internationalization process to Brazil.**
2. Identify **strategic and administrative** elements that could facilitate or hamper the internationalization process of a French SME.
3. Identify **economical** elements that could facilitate or hamper the internationalization process of a French SME.
4. Identify **cultural** elements that could facilitate or hamper the internationalization process of a French SME.

One of the first answers provided to ETAI is that, giving the current economical, political and cultural situation in Brazil, the country offers a great potential for growth and profitability. Besides, the market in which ETAI wants to operate has been growing steadily over the past few years. Growth should continue over the next decade. Most of the French clients of ETAI are currently entering the Brazilian market or analyzing this opportunity. Therefore, there is no doubt that the International Market Selection strategy should focus on Brazil and the way ETAI could enter this foreign market. We recommended ETAI to enter the Brazilian market through an equity-based investment and set up a completely new business unit. To do so, we provided substantial information on the administrative procedures that have to be undertaken to register a company in Brazil. We also pointed out the main challenges that ETAI will probably have to deal with during the internationalization process in Brazil, namely, bureaucracy, corruption, taxation, the rise of the real, and education. As regards economical aspects of the internationalization process, since such an international strategy would be impossible without financial resources, we presented the main lending technologies available to SMEs and brought to the fore the main financial institutions and organizations that could finance ETAI. We also briefly described the interest rates applied in Brazil. Related to the budget, we presented 4 main costs generated when operating in Brazil: transport costs, salaries, operating costs, and lifestyle costs. As regards cultural aspects of the

internationalization process, we presented the concepts of “*cultural distance*”, “*psychic distance*”, and culture-related difficulties or advantages that were likely to be generated during the internationalization process. The literature review suggested that cultural traits of a nation could be either an advantage or a disadvantage for a firm. But, in order to bring solution to ETAI, we finally argued that cultural traits are likely to become a source of competitiveness if they are well targeted and used by managers. We therefore described the main Brazilian cultural traits that could be used by ETAI to leverage competitiveness, namely power concentration, personal relationship and flexibility. Finally, since a good network is a strong way of dealing with culture-related issues, we established a list of contacts in France and Brazil that may be useful for ETAI and their leaders.

Further research could be made in order to analyze the viability of an internationalization process to Brazil and the international strategy of ETAI should include major topics that we could not present in the scope of this thesis.

First, it is important to increase market knowledge, conduct a full market research, and write a business plan during the first stages of the internationalization process. Such a market research was far beyond the scope of this thesis. However, scholarly literature suggests that market knowledge is a key success factor of any international strategy.

Further research should be done as regards costs. We were not able to present a thorough analysis of the costs incurred during the internationalization process. For example, we decided not to include the costs for real estate in Brazil, given the complexity of the real estate industry in São Paulo, Rio de Janeiro or any other part of Brazil. Such a research could focus on the costs incurred to rent offices or industrial parks in the main economical hubs of Brazil. As regards the marketing strategy, it might be helpful to identify key trade publications and newspaper in which the company could communicate on its products and services.

We decided to exclude the topic of tax payment. Indeed, the Brazilian tax system is very complex and involves three different levels of tax administrations: federal, state and municipal levels. According to the World Bank (2010), companies spend on average 2,600 hours paying taxes. Therefore, the complexity of the Brazilian tax system fell above the scope of this thesis and an analysis of it could not be included in the solutions presented. We suggest that 6 key aspects of the tax system be analyzed:

- The corporate income tax (“*Imposto de Renda Pessoa Jurídica*”),
- The “*Contribuição Social sobre o Lucro Líquido*”, another federal tax levied on corporations for the financing of social security,
- The costs incurred when transferring money in and out of Brazil,
- The Social Integration Program (“*Programa de Integração Social*”), a tax levied on corporations’ total sales,
- The Social Security Financing Contribution (“*Contribuição para o Financiamento da Seguridade Social*”), an additional mandatory contribution to the financing of social security, based on the gross turnover of corporations, and
- The income tax for individuals (“*Imposto de Renda Pessoa Física*”).

Finally, further research could be made as regards Brazilian contacts. For example, we decided not to conduct a deep research about consulting firms or main business lawyers. First, it could have been considered as advertising. Besides, the executives of the company should choose the consultants or lawyers. Therefore, we could not encompass the strategic variables that would have helped us to propose a list of consulting firms, industry experts, HR consultants, accountancy companies or business lawyers in Brazil.

## 6. APPENDIX

### 6.1. Appendix 1 – Brazilian Flexibility

Tanure, B., & Gonzalos-Duarte, R. (December de 2005). Leveraging competitiveness upon national cultural traits: the management of people in Brazilian companies. *International Journal of Human Resource Management*, 2201-2217.

*“Another typical cultural trait of the Brazilian culture is flexibility, which is best expressed by the Brazilian “jeititiho” (Amado and Brasil, 1991). According to Freitas (1997), there is an “intermediary path” between what is and what is not allowed. This search for an intermediary path reflects a way of life in which impersonal and personal can be related to each other. At the same time, it represents the flexibility and capacity for adaptation of the Brazilian people. The informality may be expressed by several means: communication, language, way of dressing, use of time and so on. It is also used to inject a greater degree of cordiality and hospitality into interpersonal relationships (Freitas,1997: Rodrigues, 1996b).*

*According to Tanure (2004) flexibility is, in fact, a double-faceted category, reflecting adaptability and creativity. Adaptability is identified in several situations in companies, such as the agility they show in adjusting themselves to the different government economic plans that have been so common in the recent past. Seen from the standpoint of process, the adaptability concept does not relate to producing anything new in the purest sense of creation, but it has to do with an adaptive capability exercised within pre-established limits.*

*The concept of creativity adds an innovative element. It occurs both in situations in which there is de facto originality as well as in those where there is de jure equality. Even in the so-called samba schools, there is that individual who stands out traced by personal relationship in the group or in the hierarchy. This is another hallmark of the Brazilian culture: the flexibility to coexist with hierarchy in a de facto egalitarian milieu.*

*Flexibility is also permeated by one of the outstanding traits of the Brazilian culture: affectivity. As Tanure (2004) shows in her model of cultural action, Brazilians disclose thoughts and feelings through the verbal medium and otherwise. They are inviting and do not shy away from physical touch; their gesturing and expressions are strong and their talk is fluent and dramatic. Their capability to hover in the spaces of leaders and followers or in institutional and personal spaces explains a few of the paradoxes of Brazilian society: it is happy and harmonic, even in poverty; it is creative but with a low level of critique. The manner of handling these apparent paradoxes is what typifies the Brazilian culture, and external observers marvel at the Brazilian way of being. Coexisting with opposites is an ad typical of the country's culture”.*



## 6.2. Appendix 2 – The AUTOMECE Trade Fair

**Local :** Parque Anhembi, Av. Olavo Fontoura, 1209, Santana / São Paulo, Brésil

**Date :** From April, 12 to April, 16 2011

### **Sectors represented during the fair :**



*“Spare parts and systems: engine, vent, axle, steering, breaks, wheels, bolsters, metallic parts, assembled parts, windows, bumpers, bending roof, convertible roods, panoramic covering, instruments, airbags, caps, seats, heating, air conditioning, electrical adjusters, internal filters, radio, antennas, navigation, telematica, telemobile, DVD, electrical, battery, lights, cables, whips, control units, bus systems, driver assistance systems, fixation elements, bearing fixation rings, rollers, replacement parts, repairs, restoration, hybrid, and gas”.*



*“Accessories and Tuning: automotive accessories in general; tuning, performance systems; design improvement, optic; options and conversions; wheels, tires and together”.*



*“Repairing and Maintenance: equipments and tools (elevation, trial, measurement equipments and tires installation); corrosion prevention and painting (systems, equipments, preventing inks, corrosion and auxiliaries); towing services, accident assistance and mobile services; residues elimination and recycling (systems and equipments); car towing”.*



*“IT and management: planning and construction concession (business consultants, certifications, environmental protection consultants); financial concessionaries (finances, insurance, no fault insurance concepts) and Dealer management systems (business organization, IT, data management, client management)”*

Source:

[www.automecfeira.com.br](http://www.automecfeira.com.br)

## 6.3. Appendix 3 – Networking

### A. Organizations in France

#### a. Government institutions

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<b>Agence pour la création d’entreprises</b> (APCE)	14 rue Delambre. 75682 Paris Cedex 14 Tel.: 01 42 18 58 58 Fax.: 01 42 18 58 00 <a href="http://www.apce.com">www.apce.com</a>
<b>Embassy of Brazil in France</b>	34 cours Albert 1 <sup>er</sup> . 75008 Paris Tel.: 01 45 61 63 00 Fax.: 01 42 89 03 45 <a href="http://www.cgbresil.org">www.cgbresil.org</a>
<b>Assemblée des Chambres Françaises de Commerce et d’Industries (ACFCI)</b>	45 avenue d’Iéna. 75773 Paris Cedex 16 Tel.: 01 40 69 37 00 Fax: 01 47 20 61 28 <a href="http://www.acfci.cci.fr">www.acfci.cci.fr</a>
<b>Association pour l’Emploi des Cadres (APEC)</b>	51 boulevard Brune. 75014 Paris Cedex 14 Tel.: 01 40 52 20 01 <a href="http://www.apec.asso.fr">www.apec.asso.fr</a>
<b>Chambre de Commerce et d’Industrie de Paris (CCIP)</b>	27 avenue de Friedland. 75382 Paris Cedex 08 Tel.: 01 55 65 55 65 Fax: 01 55 65 78 68 <a href="http://www.ccip.fr">www.ccip.fr</a>

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**Confédération générale des petites et moyennes entreprises (CGPME)** 10 terrasse Bellini. 92806 Puteaux Cedex

Tel.: 01 47 78 78 35 ou 78 36

Fax: 01 47 78 77 52

[www.cgpme.org](http://www.cgpme.org)

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**Comité national des conseillers du commerce extérieur de la France (CNCCEF)** 22 avenue Franklin Roosevelt. BP 303

75365 Paris Cedex 08

Tel.: 01 53 83 92 92

Fax: 01 53 83 92 99

[www.cnccef.org](http://www.cnccef.org)

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**Direction générale des impôts – Centre des impôts des Non-résidents (CINR)** 9 rue d'Uzès. TSA 39203. 75094 Paris Cedex 02

Tel.: 01 44 76 18 00 ou 19 00

Fax: 01 44 76 19 90

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**Direction générale du Trésor** 139 rue de Bercy. 75572 Paris Cedex 12

Tel.: 01 44 87 17 17

Fax: 01 53 18 36 15

[www.economie.gouv.fr](http://www.economie.gouv.fr)

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**Institut National de la Propriété Intellectuelle (INPI)** 26 bis rue de Saint-Pétersbourg. 75008 Paris Cedex 08

Tel.: 01 53 04 53 04

Fax: 01 42 93 59 30

[www.inpi.fr](http://www.inpi.fr)

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**Mouvement des Entreprises de France (MEDEF) International** 9 avenue Frédéric Le Play. 75007 Paris

Tel.: 01 53 59 16 16

Fax : 01 45 55 06 73

[www.medefinternational.fr](http://www.medefinternational.fr)

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<b>Oséo</b>	27-31 avenue du Général Leclerc  94710 Maisons-Alfort Cedex  Tel. : 01 48 15 56 55 Fax : 01 48 15 56 94  <a href="http://www.oseo.fr">www.oseo.fr</a>
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<b>Ubifrance</b>	77 boulevard Saint Jacques. 75998 Paris Cedex 14  Tel. : 01 40 73 30 00 Fax : 01 40 73 39 79  <a href="http://www.ubifrance.fr">www.ubifrance.fr</a>
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<b>Union des Chambres de commerce et d'industrie françaises à l'étranger (UCCIFE)</b>	2 rue de Viarmes. 75040 Paris Cedex 01  Tel.: 01 55 65 39 21. Fax : 01 55 65 39 38  <a href="http://www.uccife.org">www.uccife.org</a>
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b. Financial organizations

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<b>Banco do Brasil</b>	29, avenue Kleber. 75116 Paris  Tel.: 01 40 53 55 00 Fax: 01 40 53 55 04  <a href="http://www.bb.com.br">www.bb.com.br</a>
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<b>Inter-American Development Bank (IDB)</b>	66 avenue d'Iéna. 75116 Paris  Tel.: 01 40 69 31 00  Fax: 01 40 69 31 20  <a href="http://www.iadb.org">www.iadb.org</a>
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c. Other organizations

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**Compagnie Nationale des Conseils en Propriété Industrielle (CNCCPI)**

92 rue d'Amsterdam. 75009 Paris

Tel.: 01 53 21 90 89

Fax: 01 53 21 95 90

[www.cncpi.fr](http://www.cncpi.fr)

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**Fédération Française de la Franchise**

9 rue Alfred de Vigny. 75008 Paris

Tel.: 01 53 75 22 25

Fax: 01 53 75 22 20

[www.franchise-fff.com](http://www.franchise-fff.com)

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**Maison de l'Amérique Latine**

217 boulevard Saint Germain. 75007 Paris

Tel.: 01 49 54 75 20

Fax: 01 40 49 03 94

[www.mal217.org](http://www.mal217.org)

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## B. French Organizations in Brazil

### a. Institutions

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**French Embassy in Brasilia**

SES Avenida das Nações. Lote 04. Quadra 801.  
70404 900 Brasilia/DF

Tel.: (55 61) 32 22 39 99

Fax : (55 61) 32 22 39 17

[www.ambafrance-br.org](http://www.ambafrance-br.org)

[france@ambafrance.org.br](mailto:france@ambafrance.org.br)

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**French Consulate General in São Paulo**

Avenida Paulista, 1842. 14° andar

01310-200 São Paulo/SP

Tel.: (55 11) 33 71 54 00

<http://saopaulo.ambafrance-br.org>

cgfsaopaulo@yahoo.fr

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**CCFB São Paulo**

Alameda Itú, 852. 19° andar. 01421-001 São Paulo/SP

Tél.: (55 11) 30 88 22 90

Fax: (55 11) 30 61 15 53

[www.ccfb.com.br](http://www.ccfb.com.br)

comercialsp@ccfb.com.br

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**b. Banks and other financial institutions**

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**AFD Brasilia**

Sas Quadra 03. Bloco C. Lote 02. Edifício Business Point

Sala 208. 70070-934 Brasilia

Tel.: (55 61) 33 22 43 20

alvaresr@afd.fr

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**Banco Calyon Brasil (Crédit Agricole)**

Alameda Itu, 852. 16° andar. 01421-001 São Paulo/SP

Tel.: (55 11) 38 96 63 00

Fax: (55 11) 38 96 63 63

[www.calyon.com.br](http://www.calyon.com.br)

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**BNP Paribas**

Avenida Presidente Juscelino Kubitschek 510. 12° andar.

04543-906 São Paulo/SP

Tel.: (55 11) 38 41 31 00

Fax: (55 11) 38 41 33 77

[www.bnpparibas.com.br](http://www.bnpparibas.com.br)

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**Coface do Brasil**

Pça. João Duran Alonso, 34. 12° andar

04571-070 São Paulo/SP

Tel.: (55 11) 55 09 81 81

Fax: (55 11) 55 09 81 80

[www.coface.com.br](http://www.coface.com.br)

[coface@coface.com.br](mailto:coface@coface.com.br)

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**Natixis Banques Populaires**

Av. Paulista 37. 7° andar. Conjunto 72. Bela Vista

01311-902 São Paulo/SP

Tel.: (55 11) 30 27 59 00

Fax: (55 11) 30 27 59 10

[www.natixis.fr](http://www.natixis.fr)

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**Société Générale Brasil S/A**

Avenida Paulista 2300. 9° andar

Edifício São Luiz Gonzaga. 01310-300 São Paulo/SP

Tel.: (55 11) 32 17 80 00

Fax: (55 11) 32 17 80 05

[www.sgcib.com/office-locator/brazil](http://www.sgcib.com/office-locator/brazil)

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**Proparco**

Edifício Ciragan Office . Alameda Ministro Rocha de  
Azevedo, 38

11° andar conjunto 1104 . 01410-000  
São Paulo

Tel.: (55 11) 25 32 47 51

Fax: (55 11) 31 42 98 84

[www.proparco.fr](http://www.proparco.fr)

[afdsaopaulo@groupe-afd.org](mailto:afdsaopaulo@groupe-afd.org)

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### C. Brazilian Organizations

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**Ministério do Desenvolvimento,**

Esplanada dos Ministérios. Bloco J

**Indústria e Comércio Exterior**

70056-900 Brasília/DF

Tel.: (55 61) 21 09 70 00

Fax: (55 61) 21 09 72 47

[www.desenvolvimento.gov.br](http://www.desenvolvimento.gov.br)

[www.mdic.gov.br](http://www.mdic.gov.br)

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**Secretaria do Comércio Exterior (SECEX)**

Esplanada dos Ministérios. Bloco J. 8° andar

70053-000 Brasília/DF

Tel.: (55 61) 21 09 70 77

Fax: (55 61) 21 09 70 81

[www.mdic.gov.br/sitio/interna/index.php?area=5](http://www.mdic.gov.br/sitio/interna/index.php?area=5)

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**Ministério da Justiça**

Esplanada dos Ministérios. Bloco T

70064 900 Brasília/DF

Tel.: (55 61) 34 29 30 00

Fax: (55 61) 32 25 62 88

[www.mj.gov.br](http://www.mj.gov.br)

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**Ministério da Ciência e Tecnologia**

Esplanada dos Ministérios. Bloco E

70067-900 Brasília/DF

Tel.: (55 61) 33 17 75 00

Fax: (55 61) 33 17 75 75

[www.mct.gov.br](http://www.mct.gov.br)

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**Ministério do Trabalho e Emprego**

Esplanada dos Ministérios. Bloco F

70059-900 Brasília/DF

Tel.: (55 61) 33 17 60 00

Fax: (55 61) 32 26 90 04

[www.mte.gov.br](http://www.mte.gov.br)

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**For visas :**

Coordenação Geral da Imigração

Esplanada dos Ministérios. Bloco F. Sala 278. Anexo  
B. 70059-900 Brasília/DF

Tel.: (55 61) 33 17 64 17

Fax: (55 61) 33 17 74 42

[www.mte.gov.br/cni/default.asp](http://www.mte.gov.br/cni/default.asp)[conselho.imigracao@mte.gov.br](mailto:conselho.imigracao@mte.gov.br)

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**Instituto Nacional de Propriedade Industrial**

SAS. Quadra 2. Lote 1ª. 70040-000 Brasília/DF

**INPI Distrito Federal (INPI)**Tel./Fax: (55 61) 32 24 11 14

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## 6.4. Appendix 4 – The Aftermarket and the automotive industry in Brazil

**Table 17 - Balance of the automotive replacement sector in 2010**

Sector		2004	2005	2006	2007	2008	2009	2010
Autoparts Industry	Sales (BRL billion)	7,3	7,6	7,5	9,3	9,9	10,8	12,6
	Number of companies	304	286	280	294	294	294	359
	Employees (thousands)	25,1	24,2	23,9	29,3	28,1	27,6	30,5
Distributors	Sales (BRL billion)	8,2	9	9,2	10,5	10,8	10,8	11,7
	Number of companies	198	217	240	264	265	265	268
	Employees (thousands)	33,1	33,3	37	38,9	39,8	39,8	40,2
Retail shops	Sales (BRL billion)	14,8	12,9	12,9	10,8	12	13,4	15,5
	Number of companies (thousands)	40	38	35	33,2	32,9	33,2	38,5
	Employees (thousands)	210	187	175	179,4	117,6	179,4	184,1
Vehicles Repair	Sales (BRL billion)	17,2	17,9	19,7	21	22,4	23,5	29,3
	Number of companies (thousands)	119,6	102	92,4	94,7	85,6	87,8	92,1
	Employees (thousands)	777	625	653	666	671	687,7	711,1
<b>Total</b>	<b>Sales (BRL billion)</b>	<b>47,5</b>	<b>47,4</b>	<b>49,3</b>	<b>51,6</b>	<b>55,1</b>	<b>58,5</b>	<b>69,1</b>
	<b>Number of companies (thousands)</b>	<b>160,1</b>	<b>140,5</b>	<b>127,9</b>	<b>128,5</b>	<b>119,1</b>	<b>121,6</b>	<b>131,2</b>
	<b>Employees (thousands)</b>	<b>1045,2</b>	<b>869,5</b>	<b>888,9</b>	<b>913,6</b>	<b>856,5</b>	<b>934,5</b>	<b>965,9</b>

**Sources** :Carro 100% website

**Table 18 - Number of car repair shops in Brazil (1997-2010)**

State	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>North</b>														
Amazonas	800	750	700	680	720	720	595	536	519	503	490	494	503	528
Pará	2 750	2 700	2 500	2 500	2 550	2 550	2 200	1 980	1 920	1 862	1 768	1 785	1 820	1 911
Rondônia	760	700	450	290	295	295	245	221	265	318	310	313	319	334
Acre	300	250	200	200	205	205	170	153	148	143	139	140	142	149
Amapá	200	150	130	130	180	180	170	154	149	144	140	141	143	150
Roraima	250	200	150	150	190	190	175	158	162	166	161	162	165	173
Tocantins	750	700	550	550	559	550	440	396	407	419	408	412	420	441
<b>SUBTOTAL</b>	<b>5 810</b>	<b>5 450</b>	<b>4 680</b>	<b>4 500</b>	<b>4 699</b>	<b>4 690</b>	<b>3 995</b>	<b>3 598</b>	<b>3 570</b>	<b>3 555</b>	<b>3416</b>	<b>3 447</b>	<b>3 512</b>	<b>3 686</b>
<b>Northeast</b>														
Maranhão	1 220	1 220	1 120	920	1 100	1 100	970	873	846	820	799	806	822	863
Piauí	850	800	750	600	850	850	800	720	698	677	660	666	679	712
Ceará	3 800	3 500	2 700	2 700	2 680	2 680	2 270	2 043	1 981	1 921	1 824	1 842	1 878	1 971
Rio Grande do Norte	1 100	900	900	900	1 200	1 200	1 100	990	960	931	907	916	934	980
Paraíba	1 650	1 300	1 200	1 200	1 200	1 200	1 180	1 062	850	892	869	877	894	938
Pernambuco	11 700	10 700	8 500	8 500	9 000	8 300	6 980	6 282	4 398	4 179	3 970	4 009	4 089	4 293
Alagoas	1 200	1 100	1 100	1 000	1 000	1 100	1 030	927	899	872	850	858	875	918
Sergipe	890	800	790	680	830	800	770	693	672	651	634	640	652	684
Bahia	13 120	12 500	12 590	11 700	11 500	11 000	9 750	8 775	5 703	4 563	4 334	4 377	4 464	4 687
<b>SUBTOTAL</b>	<b>35 530</b>	<b>32 820</b>	<b>29 650</b>	<b>28 200</b>	<b>29 360</b>	<b>28 230</b>	<b>24 850</b>	<b>22 365</b>	<b>17 007</b>	<b>15 506</b>	<b>14847</b>	<b>14 991</b>	<b>15 287</b>	<b>16 046</b>
<b>Southeast</b>														
Minas Gerais	17 800	17 000	16 300	15 930	15 430	15 000	13 900	13 761	12 384	11 145	9 920	10 019	10 219	10 729
Espírito Santo	7 800	7 500	6 750	6 750	6 700	6 500	5 800	5 220	4 176	2 924	2 777	2 804	2 860	3 003
Rio de Janeiro	19 900	18 660	18 100	17 900	17 571	17 000	15 700	15 543	12 034	9 950	8 856	8 944	9 122	9 578
São Paulo	30 110	28 600	28 200	24 800	22 800	20 000	16 900	16 731	16 229	15 742	14 168	14 309	15 035	15 798
<b>SUBTOTAL</b>	<b>75 610</b>	<b>71 760</b>	<b>69 350</b>	<b>65 380</b>	<b>62 501</b>	<b>58 500</b>	<b>52 300</b>	<b>51 255</b>	<b>44 823</b>	<b>39 761</b>	<b>35721</b>	<b>36 076</b>	<b>37 236</b>	<b>39 108</b>

<b>South</b>														
Paraná	15 150	14 700	13 500	12 500	12 300	12 000	10 480	10 376	9 339	8 406	7 481	7 555	7 706	8 091
Santa Catarina	5 250	5 000	4 500	4 200	4 200	4 200	3 800	3 762	4 514	5 416	5 145	5 196	5 299	5 563
Rio Grande do Sul	23 500	20 450	23 400	22 300	22 000	20 000	18 800	18 612	13 028	9 900	8 811	8 899	9 076	9 529
<b>SUBTOTAL</b>	<b>43 900</b>	<b>40 150</b>	<b>41 400</b>	<b>39 000</b>	<b>38 500</b>	<b>36 200</b>	<b>33 080</b>	<b>32 750</b>	<b>26 881</b>	<b>23 722</b>	<b>21437</b>	<b>21 650</b>	<b>22 081</b>	<b>23 183</b>
<b>Center West</b>														
Mato Grosso do Sul	830	750	730	680	950	950	900	810	972	1 166	1 107	1 118	1 140	1 197
Mato Grosso	970	900	870	850	990	990	890	801	961	1 153	1 095	1 105	1 127	1 183
Goiás	4 500	4 400	4 400	4 200	4 700	4 700	4 450	4 005	3 884	3 767	3 578	3 613	3 685	3 869
Distrito Federal	5 050	5 000	4 950	4 600	4 600	4 500	4 100	4 059	3 937	3 818	3 627	3 663	3 736	3 922
<b>SUBTOTAL</b>	<b>11 350</b>	<b>11 050</b>	<b>10 950</b>	<b>10 330</b>	<b>11 240</b>	<b>11 140</b>	<b>10 340</b>	<b>9 675</b>	<b>9 754</b>	<b>9 904</b>	<b>9407</b>	<b>9 499</b>	<b>9 688</b>	<b>10 171</b>
<b>TOTAL GERAL</b>	<b>172 200</b>	<b>161 230</b>	<b>156 030</b>	<b>147 410</b>	<b>146 300</b>	<b>138 760</b>	<b>124 565</b>	<b>119 643</b>	<b>102 035</b>	<b>92 448</b>	<b>84828</b>	<b>85 663</b>	<b>87 804</b>	<b>92 194</b>

**Sources** :Sindirepa / Sindipeças

**Table 19 - Brazilian operating vehicles fleet 1960/2010 (Including imported vehicles)**

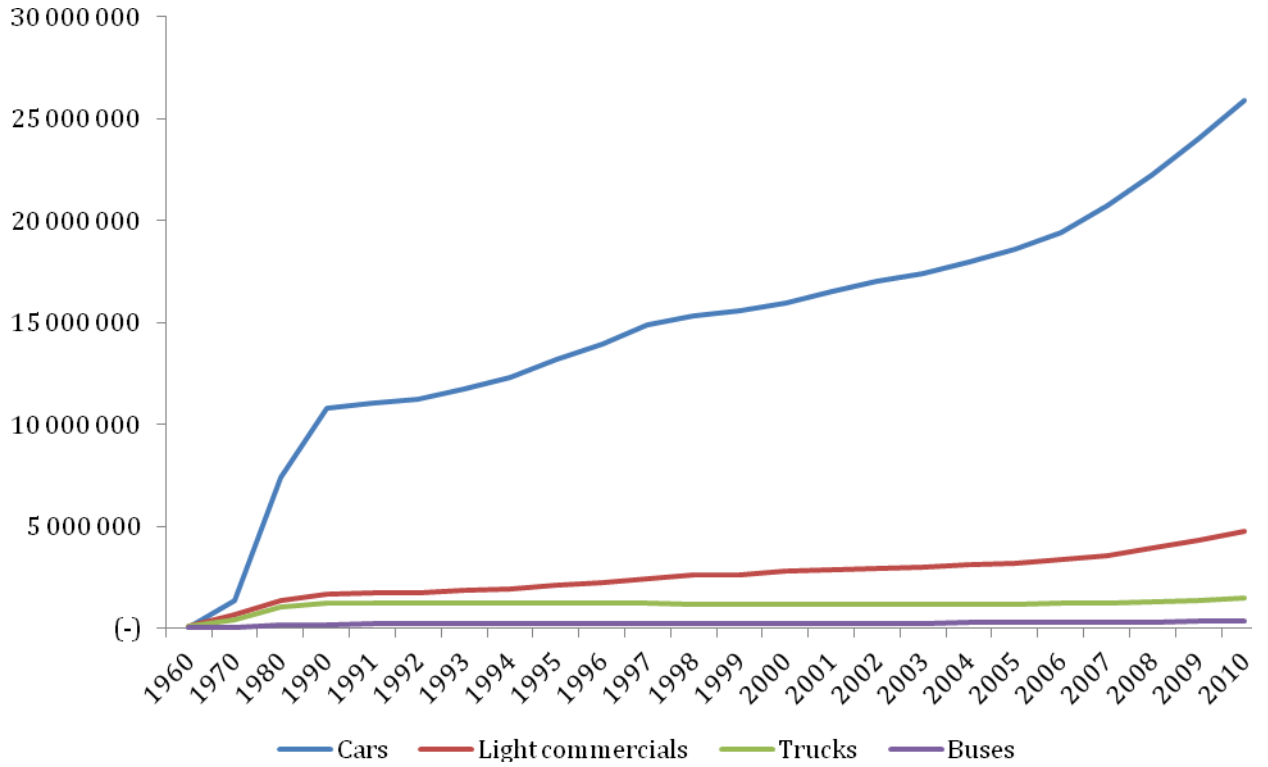
Year	Cars	/total	Light commercials	/total	Trucks	/total	Buses	/total	Total	Growth	Imported	% Import.
1960	56 632	18,3%	114 581	37,0%	126 768	40,9%	12 080	3,9%	310 061		nd	-
1970	1 378 221	55,2%	647 295	25,9%	422 879	16,9%	48 652	1,9%	2 497 047	705,3%	nd	-
1980	7 374 524	74,4%	1 331 795	13,4%	1 064 540	10,7%	142 375	1,4%	9 913 234	297,0%	nd	-
1990	10 804 973	77,6%	1 684 320	12,1%	1 238 376	8,9%	188 458	1,4%	13 916 127	40,4%	118	0,0%
1991	11 055 166	77,8%	1 713 695	12,1%	1 239 672	8,7%	199 099	1,4%	14 207 632	2,1%	15 778	0,1%
1992	11 258 551	78,0%	1 745 017	12,1%	1 222 967	8,5%	205 476	1,4%	14 432 011	1,6%	39 195	0,3%
1993	11 710 731	78,2%	1 832 006	12,2%	1 215 178	8,1%	208 448	1,4%	14 966 363	3,7%	110 230	0,7%
1994	12 332 047	78,5%	1 950 077	12,4%	1 216 953	7,7%	211 275	1,3%	15 710 352	5,0%	304 291	1,9%
1995	13 174 135	78,8%	2 103 236	12,6%	1 222 403	7,3%	217 943	1,3%	16 717 717	6,4%	673 411	4,0%
1996	13 956 748	79,1%	2 266 871	12,8%	1 208 156	6,8%	222 050	1,3%	17 653 825	5,6%	880 366	5,0%
1997	14 861 407	79,4%	2 441 583	13,0%	1 200 856	6,4%	224 515	1,2%	18 728 361	6,1%	1 143 659	6,1%
1998	15 357 151	79,3%	2 596 064	13,4%	1 186 427	6,1%	228 843	1,2%	19 368 485	3,4%	1 467 099	7,6%
1999	15 587 503	79,4%	2 645 686	13,5%	1 164 540	5,9%	227 501	1,2%	19 625 230	1,3%	1 617 557	8,2%
2000	15 979 119	79,3%	2 784 738	13,8%	1 152 937	5,7%	232 502	1,2%	20 149 296	2,7%	1 761 758	8,7%
2001	16 528 731	79,4%	2 891 567	13,9%	1 148 458	5,5%	238 263	1,1%	20 807 019	3,3%	1 899 852	9,1%
2002	17 021 755	79,7%	2 957 371	13,8%	1 143 396	5,4%	244 285	1,1%	21 366 807	2,7%	1 969 969	9,2%
2003	17 397 581	79,8%	2 997 299	13,8%	1 146 854	5,3%	251 299	1,2%	21 793 033	2,0%	1 995 763	9,2%
2004	17 979 685	79,9%	3 093 459	13,7%	1 170 074	5,2%	257 869	1,1%	22 501 087	3,2%	2 023 302	9,0%
2005	18 627 576	80,0%	3 205 013	13,8%	1 188 042	5,1%	263 199	1,1%	23 283 830	3,5%	2 067 198	8,9%
2006	19 446 027	80,1%	3 347 291	13,8%	1 202 653	5,0%	273 263	1,1%	24 269 234	4,2%	2 169 186	8,9%
2007	20 721 665	80,3%	3 557 436	13,8%	1 239 999	4,8%	287 713	1,1%	25 806 813	6,3%	2 373 494	9,2%
2008	22 245 767	80,0%	3 950 712	14,2%	1 301 375	4,7%	304 909	1,1%	27 802 763	7,7%	2 765 664	9,9%
2009	23 990 950	80,1%	4 299 786	14,4%	1 354 593	4,5%	317 458	1,1%	29 962 787	7,8%	3 144 870	10,5%
2010	25 885 718	79,7%	4 784 018	14,7%	1 490 748	4,6%	331 906	1,0%	32 492 390	8,4%	3 728 890	11,5%
<b>CAGR 90-10</b>	4,5%		5,4%		0,9%		2,9%		4,3%		67,9%	

**Sources :** Sindirepa / Sindipeças

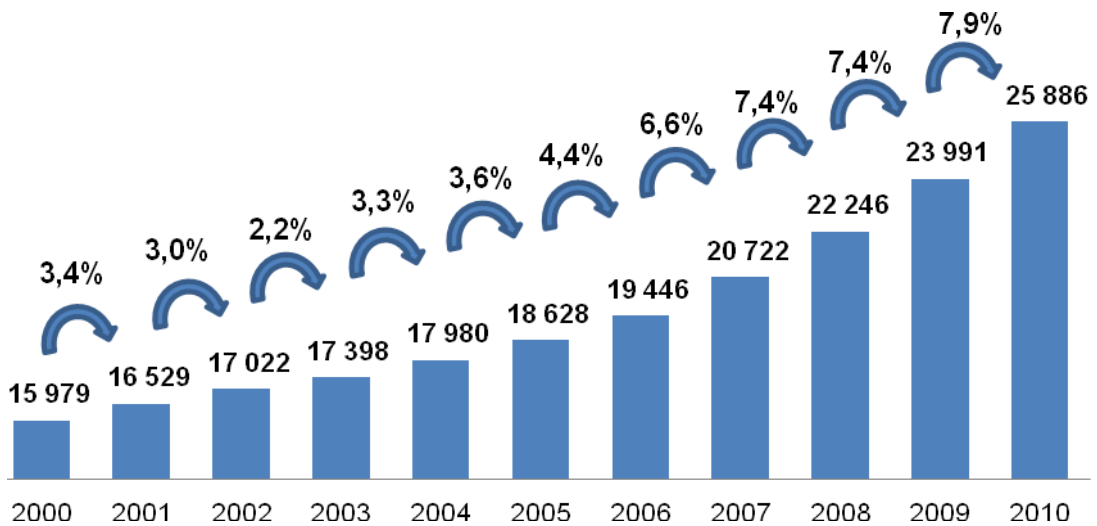
**Notes:**

1. Statistics estimations done by the Working Group Aftermarket-Fleet (GTR-Fleet) of Sindipeças
2. The total included the number of imported autovehicles

**Figure 3 - Brazilian operating vehicles fleet 1960/2010 (Including imported vehicles)**



**Figure 4 - Growth of the Brazilian operating car fleet**



**Table 20 - Average age of the operating vehicles fleet**

Vehicle	2003	2004	2005	2006	2007	2008	2009	2010
Cars	9a 3m	9a 4m	9y 4m	9y 5m	9y 5m	9y	8y 10m	8y 9m
Light Commercials	8y 7m	8y 8m	8y 8m	8y 10m	8y 11m	8y 3m	8y	7y 8m
Trucks	12y 4m	12y	11y 9m	11y 8m	11y 5m	10y 10m	10y 6m	9y 10m
Buses	9y 11m	9y 11m	10y	10y	9y 11m	9y 6m	9y 5m	9y 4m
<b>Total</b>	<b>9y 4m</b>	<b>9y 4m</b>	<b>9y 4m</b>	<b>9y 6m</b>	<b>9y 5m</b>	<b>9y</b>	<b>8y 10m</b>	<b>8y 8m</b>

Sources : Sindipeças / abril 2011

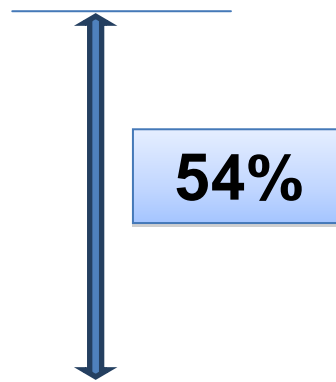
**Table 21 - Breakdown of the operating fleet by fuel**

Fuel	2003	2004	2005	2006	2007	2008	2009	2010
Alcohol	18%	16%	14%	9%	10%	10%	5%	5%
Diesel	10%	10%	10%	10%	10%	8%	10%	4%
Gasoline	72%	72%	71%	73%	64%	58%	54%	52%
Bi-fuel vehicle	-	2%	5%	8%	16%	24%	31%	39%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Sources : Sindipeças / April 2011

**Table 22 - Age of the operating vehicles fleet (Thousands of vehicles)**

Age	Year	Fleet	Addition	Cumul. (%)
1	2010	3 560	3 560	11,0%
2	2009	3 086	6 646	20,5%
3	2008	2 767	9 413	29,0%
4	2007	2 346	11 759	36,2%
5	2006	1 795	13 554	41,7%
6	2005	1 566	15 120	46,5%
7	2004	1 469	16 589	51,1%
8	2003	1 224	17 812	54,8%
9	2002	1 299	19 111	58,8%
10	2001	1 384	20 495	63,1%
11	2000	1 262	21 757	67,0%
12	1999	1 052	22 809	70,2%
13	1998	1 259	24 068	74,1%
14	1997	1 558	25 626	78,9%
15	1996	1 381	27 007	83,1%
16	1995	1 329	28 336	87,2%
17	1994	1 030	29 366	90,4%
18	1993	793	30 159	92,8%
19	1992	515	30 674	94,4%
20	1991	511	31 184	96,0%
> 20 years	<1991	1 308	32 492	100,0%



Sources : Sindipeças / April 2011

**Table 23 - Evolution of the operating fleet and Importance of Imported vehicles (thousands of vehicles)**

Country	2003	2004	2005	2006	2007	2008	2009	2010
Brazil <sup>3</sup>	19 797	20 479	21 219	22 100	23 459	25 037	26 818	28 752
Argentina	1 042	1 070	1 107	1 182	1 331	1 525	1 743	2 043
Others	954	952	958	987	1 074	1 241	1 402	1 628
Imported	1 996	2 022	2 065	2 169	2 405	2 766	3 145	3 671
<b>Total</b>	<b>21 793</b>	<b>22 501</b>	<b>23 284</b>	<b>24 269</b>	<b>25 864</b>	<b>27 803</b>	<b>29 963</b>	<b>32 423</b>

**Sources** :Sindipeças / April 2011

**Notes:**

1. For 2007, the information given by Sindipeças do not match - The operating vehicles fleet is therefore estimated between 25,864 and 25 807 thousand vehicles
2. For 2010, the information given by Sindipeças do not match - The operating vehicles fleet is therefore estimated between 32,423 and 32,492 thousand vehicles
3. Cars + Light Commercials + Trucks + Buses – Imported

Growth (%)	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	-	3,4%	3,6%	4,2%	6,1%	6,7%	7,1%	7,2%
Argentina	-	2,7%	3,5%	6,8%	12,6%	14,6%	14,3%	17,2%
Others	-	(0,2%)	0,6%	3,0%	8,8%	15,5%	13,0%	16,1%
Imported	-	1,3%	2,1%	5,0%	10,9%	15,0%	13,7%	16,7%
Imported / total	9,2%	9,0%	8,9%	8,9%	9,3%	9,9%	10,5%	11,3%

**Sources** :Sindipeças / April 2011



**Table 24 - Brazilian production, domestic sales and exports of vehicles (2000-2010)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR 00-10
<b>1 Total production of vehicles (assembled and CKD)</b>												
Cars	1 361 721	1 501 586	1 520 285	1 505 139	1 862 780	2 011 817	2 092 003	2 391 354	2 545 729	2 576 628	2 823 949	7,6%
Light Commercials	235 161	214 963	179 861	216 702	318 351	365 636	379 208	412 487	458 806	447 862	582 570	9,5%
Trucks	71 686	77 431	68 558	78 960	107 338	118 000	106 644	137 281	167 330	123 592	191 646	10,3%
Buses	22 672	23 163	22 826	26 990	28 758	35 387	34 474	38 986	44 111	34 535	45 869	7,3%
<b>Total</b>	<b>1 691 240</b>	<b>1 817 143</b>	<b>1 791 530</b>	<b>1 827 791</b>	<b>2 317 227</b>	<b>2 530 840</b>	<b>2 612 329</b>	<b>2 980 108</b>	<b>3 215 976</b>	<b>3 182 617</b>	<b>3 644 034</b>	8,0%
Growth, %	-	7,4%	(1,4%)	2,0%	26,8%	9,2%	3,2%	14,1%	7,9%	(1,0%)	14,5%	
<b>2 Registration of nationally manufactured new vehicles</b>												
Cars	1 075 832	1 176 557	1 143 376	1 121 462	1 226 435	1 325 333	1 473 285	1 799 431	1 962 369	2 160 421	2 213 617	7,5%
Light Commercials	161 464	159 375	139 761	152 775	192 102	208 461	220 024	277 111	337 685	362 893	458 039	11,0%
Trucks	61 624	70 509	63 706	64 688	80 870	77 366	72 930	95 170	118 228	106 486	154 921	9,7%
Buses	16 383	16 525	16 534	15 882	17 646	15 358	19 723	23 152	26 918	22 566	28 346	5,6%
<b>Total</b>	<b>1 315 303</b>	<b>1 422 966</b>	<b>1 363 377</b>	<b>1 354 807</b>	<b>1 517 053</b>	<b>1 626 518</b>	<b>1 785 962</b>	<b>2 194 864</b>	<b>2 445 200</b>	<b>2 652 366</b>	<b>2 854 923</b>	8,1%
Growth, %	-	8,2%	(4,2%)	(0,6%)	12,0%	7,2%	9,8%	22,9%	11,4%	8,5%	7,6%	
<b>3 Registration of imported new vehicles</b>												
Cars	100 942	118 539	75 170	47 219	32 011	43 849	82 935	176 087	230 908	314 343	431 087	15,6%
Light Commercials	65 595	56 716	37 834	24 874	27 570	41 297	55 468	88 403	140 029	171 085	226 203	13,2%
Trucks	7 585	3 008	2 180	1 603	2 135	2 968	3 328	3 328	4 121	3 387	2 775	(9,6%)
Buses	56	53	60	107	6	12	45	46	92	59	76	3,1%
<b>Total</b>	<b>174 178</b>	<b>178 316</b>	<b>115 244</b>	<b>73 803</b>	<b>61 722</b>	<b>88 126</b>	<b>141 776</b>	<b>267 864</b>	<b>375 150</b>	<b>488 874</b>	<b>660 141</b>	14,3%
Growth, %	-	2,4%	(35,4%)	(36,0%)	(16,4%)	42,8%	60,9%	88,9%	40,1%	30,3%	35,0%	
<b>4 Registration of new vehicles (nationally manufactured and imported)</b>												
Cars	1 176 774	1 295 096	1 218 546	1 168 681	1 258 446	1 369 182	1 556 220	1 975 518	2 193 277	2 474 764	2 644 704	8,4%
Light Commercials	227 059	216 091	177 595	177 649	219 672	249 758	275 492	365 514	477 714	533 978	684 242	11,7%
Trucks	69 209	73 517	65 886	66 291	83 005	80 334	76 258	98 498	122 349	109 873	157 696	8,6%
Buses	16 439	16 578	16 594	15 989	17 652	15 370	19 768	23 198	27 010	22 625	28 422	5,6%
<b>Total</b>	<b>1 489 481</b>	<b>1 601 282</b>	<b>1 478 621</b>	<b>1 428 610</b>	<b>1 578 775</b>	<b>1 714 644</b>	<b>1 927 738</b>	<b>2 462 728</b>	<b>2 820 350</b>	<b>3 141 240</b>	<b>3 515 064</b>	9,0%
Growth, %	-	7,5%	(7,7%)	(3,4%)	10,5%	8,6%	12,4%	27,8%	14,5%	11,4%	11,9%	
Imported vehicle / New vehicle registration	11,7%	11,1%	7,8%	5,2%	3,9%	5,1%	7,4%	10,9%	13,3%	15,6%	18,8%	
<b>5 Total of vehicle exports (assembled and CKD)</b>												
Cars	283 449	321 490	369 925	440 957	603 052	684 260	635 851	588 346	558 207	373 747	615 989	8,1%
Light Commercials	72 529	55 700	42 250	72 883	117 138	155 603	153 803	144 799	122 022	78 178	113 565	4,6%
Trucks	9 293	6 762	5 475	12 820	25 650	38 312	37 457	41 325	38 665	13 504	23 060	9,5%
Buses	6 028	6 902	6 765	9 320	12 947	18 969	15 726	14 901	15 689	9 896	14 624	9,3%
<b>Total</b>	<b>371 299</b>	<b>390 854</b>	<b>424 415</b>	<b>535 980</b>	<b>758 787</b>	<b>897 144</b>	<b>842 837</b>	<b>789 371</b>	<b>734 583</b>	<b>475 325</b>	<b>767 238</b>	7,5%
Growth, %	-	5,3%	8,6%	26,3%	41,6%	18,2%	(6,1%)	(6,3%)	(6,9%)	(35,3%)	61,4%	
Vehicles exports / Total Production (%)	22,0%	21,5%	23,7%	29,3%	32,7%	35,4%	32,3%	26,5%	22,8%	14,9%	21,1%	

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