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INTERNATIONALIZATION STRATEGY

OF RELANCE TO BRAZIL

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A project carried out on the SME Competitiveness:

Internationalization Strategy Field Lab, under the supervision of:

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Abstract

This Work Project was focused, firstly, in an internal analysis to assess the possible competitive advantage sources of the firm and to identify the key weakness that the firm should improve before advancing with the internationalization strategy. Completed the analysis was possible to verify that the source of sustainable competitive advantage of Relance is the use of specific raw materials and that its biggest weaknesses are the lack of capacity and the excessive dependence on key employees. Overall, it was possible to conclude that the firm is in position of competing in the international markets.

Secondly, due to its crucial importance, the country selection was made with a deep objective analysis, resulting with the selection of Brazil as the country with the highest market potential.

Regarding the strategy to actually enter in Brazil’s market, after the study of 12 modes of entry it was possible to conclude that there is no ideal mode. However, the study performed allowed to undertake the conclusion that in order to obtain long-term optimization on the process, the adaptation, to the firm´s situation, of the Uppsala model progressive stages is the ideal.

At the course of this Work Project it was inferred that the critical success factors are the choice of the distributor and the promotion of Relance as a premium brand.

Key words: Relance; Portuguese Footwear; Internationalization Strategy; Brazil.

Contents

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Methodology

As a first approach to the footwear industry in Portugal, I attended a workshop with the APICCAPS and CTCP. This session was focused on the main developments about the historical evolution of the cluster, the aim of its current strategies and the evolution of productivity and competiveness with the usage of new technological resources.

For a deeper understanding, a visit to Relance's production site guided by the product manager was scheduled and an interview with the company's financial manager was arranged. The meeting was essential to provide greater insights on their inherent practices and the perception the company had regarding possible problems in the cluster.

During the development of the several stages this thesis focuses on, several entities and other business-related organizations were contacted. Moreover, online and physical libraries were exhaustively used to obtain information and technical literature.

This Work Project also incorporates part of the web-based GMMSO management tool and extensive data collected from reputable sources. The data consists mainly of electronic sources such as the CIA World Factbook, annual reports and Euromonitor research database.

1. Firm's Description

Relance Calçados, Lda is a Portuguese small enterprise[1] located in Santa Maria da Feira. It was created in September 2004 and performs business-to-business transactions. Relance was born when a small enterprise focused on women footwear, where the current stakeholders used to be employees, went bankrupt. Mr. Manuel André Ferreira Soares da Silva and Mr. Pedro Gil Nunes da Silva Ferreira saw an opportunity to buy the fixed capital in an insolvency auction and take some of the orders that were pending. They invited Dr. Armando Melo da Silva to contribute to this new project with his management skills. Thus a new firm focused in women footwear called Relance- which means revival- was born with these three partners becoming shareholders with equal equity and a renewed approach, focused only on business-to-business and embracing a strategy of targeting the foreign markets as a premium brand with products going up to 200€ for the final customer.

Initially employing 25 workers, the firm's sales were of 20 000 pairs per year.

It wasn't until 2007 that the company took a big breakthrough - a big Danish client, Bianco, after discovering Relance products in an International fair, appeared with a private label order of 50 000 pairs that challenged the entire organization.

The decision of increasing the machinery and the labor force was taken and in order to diversify the risk they created a parallel strategy of internationalization through fairs, along with the creation of the own brand line. Bianco, whose orders in 2008 represented a staggering 80% of the entire revenues, demonstrates the growth of the company as its current demand composes 25% of the business activity. To note that the average item quantity ordered by Bianco hasn't altered substantially, but rather that Relance has achieved to increase its client portfolio.

The company nowadays has 50 employees and a production capacity of about one hundred thousand pairs of shoes per year, revenues of 3 285 000€ in 2014(10 months) with 83% coming from private label and 17% from own brand (contract manufacturing services is almost non-existent). The own brand is present in 17 out of 25 countries where Relance operates, although Slovenia, USA and Japan alone represent 73% of total own brand revenues. Regarding the private label sales, 81% of its revenues derive from 7 countries with Denmark contributing with 33%. The impact of the domestic market to the total revenues is only of 2,2%, with 6% of the own brand total and 1% of

[1] See SME definition in Appendix 1.

the private label total, showing the success of the fundamental strategy of targeting the foreign markets.

In 2012 a night fire consumed part of São João da Madeira facilities. The firm showed signs of strength and resilience and was able to reinstall the production site in Santa Maria da Feira with enough speed to be able to deliver the orders to their most important clients. This way, they were able to maintain the trust levels in their response capacity for the future, demonstrating that they were able to overcome distress. Despite this fast recovery, the company had negative results in the last two years. This year the firm is not only expecting to achieve positive returns as it is on the way to achieve the best results ever.

2. Business Mission, Vision and Strategic Objectives

"Relance´s **mission** is to create quality products for modern, elegant women but, at the same time, casual, cosmopolitan and that doesn't neglect her well-being"

The **vision** of Relance for the next five years is to improve the presence and the awareness of the Own Brand in the international markets

Regarding **Strategic Objectives** Relance expects to continue the internationalization of the company and to increase the own brand sales from 17% to 34% of their total revenues without interfering or affecting the private label business that at the moment accounts for 83% of the all revenues.

Relance also believes that it is possible to diversify from the original "cold" product line(Autumn/Winter) created to satisfy the needs of the initial major clients in Scandinavian and raise the sales of "warm" collections(Spring/Summer), composed of shoes and sandals. To do so the firm plans to internationalize it to countries with specific annual average temperatures. This strategy is aimed to reduce the seasonality of orders.

3. Business opportunity

Despite the difficulties in the current macroeconomic conjuncture, the footwear industry continues to grow in terms of quantity and price. This was achieved by the level of exportations in the Portuguese industry, which account for more than 90% of the production outcome since the beginning of the century.

The business opportunity for Relance is created by the combination of push factors such as unfavorable trends in the Portuguese market and pulls factors, consisting in favorable conditions in foreign markets that make internationalization attractive. See appendix **2** for **industries' contexts.**

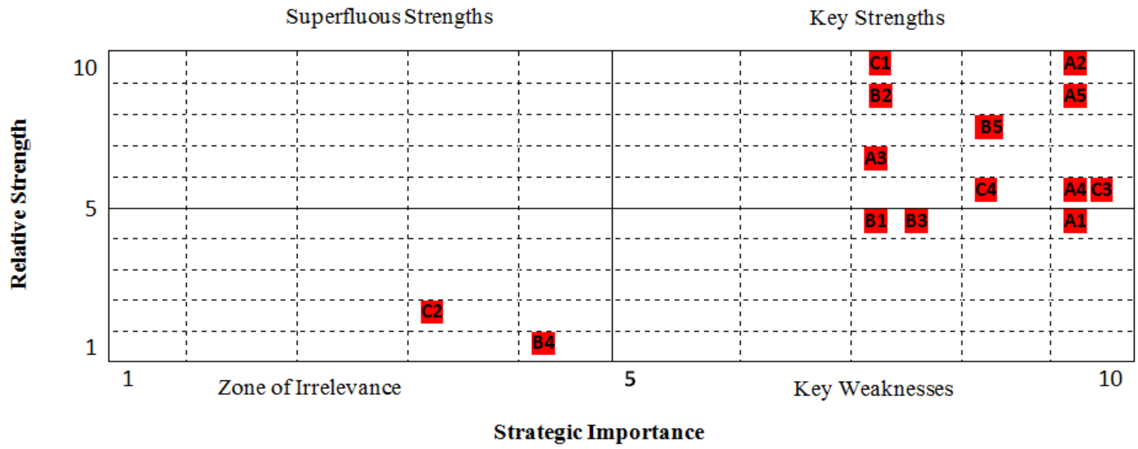
4. Resource-based view

The resource-based view (RBV), displaying the valuable tangible or intangible resources at the firm's disposal, is the basis to find the unique resources (VRIO) that are the source of competitive advantage of Relance.

Table 1 : S.I: Strategic Importance; R.S: Relative Strength **(1= very low, 10= very high)**

Core Competences	S.I	R.S	Specialized Assets	S.I	R.S	Architecture of Relations	S.I	R.S
A1 **Human Resources Management** Having good human resources with the required skills is a critical success factor.	10	5	*B1* **Plant and equipment** Good facilities and equipment improve the agility of the production and supply chain.	8	5	*C1* **Relationship with Institutional partners** Essential to build bridges between the institutional support and the defined goals.	8	10
A2 **Finishing stage** The segment where Relance operates requires an extremely quality product.	10	10	*B2* **Location** The location is an important asset to benefit from privileged resources and learning economies in the Portuguese shoes cluster.	8	9	*C2* **Strategic alliances** Strategic partnerships with other companies can take a major role to achieve economies of scale and learning economies.	4	2
A3 **Process development** High levels of technology can lead to the improvement of the firm´s operations and to sources of competitive advantage.	8	7	*B3* **Brand** Creating a set of values and brand image is vital to attract potential clients	8	5	*C3* **Portfolio of Clients** Quantity and quality of regular buyers and the relationships maintained with them world-wide	10	6
A4 **International Expertise** Knowing how to be present abroad is key for undertaking the opportunities.	10	6	*B4* **Reputation** International and national awards and classifications obtained.	5	1	*C4* **Low chemicals leather supply** The use of specialized raw materials allows the product to have a special treatment	9	5
A5 **Product development** Activities aiming to improve the current portfolio of products.	10	9	*B5* **Learning economies and experience curves** These two features allow businesses to be more efficient and more competent in all aspects.	9	7	----		

Graph 1 Resource-based view



4.1 Key Strengths

Relance bets in competing with a differentiation advantage, and to do so, besides the overall quality management, also invests considerable effort in the quality of the products by allocating an above average ratio of specialized employees in the final stage. Similar size companies allocate on average 5 employees to this stage, while Relance assigns 12.

The level of technology in the firm's processes is high. In 2011 an investment in the automation of the production was made to achieve the required rhythm to the employees. Recently CTCP stated that Relance was a pioneer in Portugal regarding production line software, as it implemented a system in which the employees could visualize their efficiency according to the expected production goals. This software also allows managers to quickly identify problems or production bottlenecks.

The firm is one of the few companies in Portugal working with special leather processed with the least chemicals possible. This raw material is the key to achieve a high quality final product because it allows for a better finishing than more processed leather, creating a "softness feeling" appreciated by women due to its mix of elegance and extreme comfort. Although its strategic importance, Relance is having difficulties to find a 100% reliable supplier of this raw material. One of the biggest threats the firm faces is the extinction of this supply. As their differentiation strategy relies on this raw material, Relance has been preparing a contingency plan.

The current location allows it to benefit from learning economies of the footwear cluster, to have access to specialized employees and to maintain critical relationships with institutional players. In general, the geographical concentration of similar enterprises contributes to higher productivity (Porter, 1998). This concentration also leads to the creation of competitive advantage due to labor market pooling, lower transaction costs of specialized inputs and to the knowledge spillovers. (Marshall, 1920). The features founded in both Portuguese and Italian shoes such as high quality, technology and flexibility in the production line were only achievable due to the networks and agglomerations in clusters.

Two of the partners have been working in this industry for more than 20 years. This allowed them to achieve a respectable level of expertise and experience in the business. Mr. Silva has the practical knowledge of the production line, while Mr. Ferreira improves and controls the portfolio of clients certifying the maintenance of good relationships with them. He is also a partner in another company called Ibershoes focused on marketing services and distribution of footwear, which he used to stimulate Relance *Very Me*. Despite considering the learning economies and experience curves achieved by the partners a key strength, the fact that this knowledge is not implemented in the enterprise in form of processes that would dispense their physic presence can originate a critical weakness.

The enterprise is constantly innovating by working on product development, producing on average about 600 new models per year. From these, around 150 are effectively produced in response to clients' orders. The firm observes and analyses the market, to find which the trends are there. It often buys competitor's products, so that home designers can be inspired in the creation and development of new items.

4.2 Key Weaknesses

Relance has a good quality and diverse human resources, composed by employees with strong experience and talent in the art of making shoes. However, the human resources available are only capable to perform a shift per day, leading to the need of using contract manufacturing services to adapt to peaks in the demand. In 2014, 20 000 pairs have been outsourced, around 22% of the entire production. Hiring new employees is not an easy task because adaptability and fast learning are required skills to the employees due to the large number of new products produced, different from other companies in the cluster. Despite being virtually possible to hire and train more employees, the labor laws do not allow the needed human resource flexibility implementation for a fast adjustment. This limitation results in considerable costs upon peaks of demand and seasonality.

Furthermore, the use of contract manufacturing services often involves a posterior adjustment of the quality in Relance facilities due to lack of excellence.

The experience of Mr. Silva and other key employees such as Mr. Amadeu in the finishing stage are essential assets during the production. The company's dependency on their skills to achieve quality products constitutes one of the greatest weaknesses of Relance.

As a result of the aforementioned fire, they are now in provisional facilities until they find a bigger plant, where they will be able to better organize and prepare to expand the production line and if required the stock storage.

5. VRIO Framework

Table 2 Assessment of the key strengths in relation to Portuguese competitors

	Valuable	Rare	Costly to Imitate	Organized	Competitive Implications	Performance
The use of low chemicals leather	✓	✓	✓	✓	Sustainable Advantage	Above Normal
Excellent quality at the finishing stage	✓	×	×	✓	Parity	Normal
Learning economies and experience curves	✓	✓	×	×	Temporary Advantage	Above Normal
Relationship with Institutional partners	✓	×	×	×	Parity	Normal
Portfolio of Clients	✓	×	×	✓	Parity	Normal
Process development	✓	✓	×	✓	Temporary advantage	Above Normal
Product development	✓	×	×	✓	Parity	Normal

By analyzing the VRIO Framework one can conclude that despite all the key strengths of Relance being considered valuable and some of them are rare, only a single one is costly to imitate. This is in part due to the low use of patents (with new 600 pairs per year the use of patents is not applicable), making them vulnerable to competing firms replicating the benefits of Relance advantages. To be noted that being "costly to imitate" does not translate in an impossibility, as a rival with enough time and resources is always able to reproduce it. Hence, my analysis was not focused in inimitable criteria but in how long will take a competitor to substitute or copy the resource.

Even the fact that the use of low chemicals leather is costly to imitate is solely dependent on a decision making process rather than supplying issues. When an enterprise is created it has to make choices concerning its mission and vision, and consequently deciding on the type of raw materials they want to work with. After one takes the decision of focusing on a specific raw material or process, it’s extremely costly to change the processes and acquire the knowledge to operate a new complex raw material. Even if a start-up decides to use this type of material, the researching activity and resulting know-how that Relance already acquired in their history is a time and resource consuming activity.

The only resources that I considered not to embed and organized in such a way to maximize the efficacy and efficiency of the company were the learning economies and experience curves. In my opinion, they are not implemented in form of processes.

Although only having one source of sustainable competitive advantage at the moment, it does not mean that Relance is not in position of competing in the international markets, as can be observed in the success internationalization rates achieved to the moment.

However, it cannot expect abnormal profits, or at least in a sustainable way. This fact is, in my analysis, due to the easiness of replicating most of its inherent advantages.

6. Value Chain analysis

As Michael Porter stated in 1985 “ the value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation.” Its contribution is important to identify value processes and areas for cost improvement

The value chain is divided into support and primary activities. Primary activities are those directly related with physical manufacture of the product, its sale, the transmission to the client and the after post-sale service. Support activities sustain the primary ones.

Regarding the primary activities, Relance is responsible for receiving and storing the inputs in their facilities and, depending on the client, possibly warehousing the final product and handling distribution. The enterprise chose a business model where the cutting and sewing are totally outsourced but the rest of the transformation processes are made in-house when they have enough capacity. Marketing and sale activities are made by Relance mainly through their presence in international events (mainly *MICAM* in March and September). Activities related to post-sales services are inexistent due to the fact that it operates with business-to-business and does not have contact with the final client. In a hypothetical situation of a request to repair or adjust a final product, it would be cheaper and easier to produce a new one because the current processes are not adapted to respond to this situation.

Concerning support activities, procurement represents by far the highest cost, incorporating the purchase of raw materials such as leather, the outsource of cutting and sewing and the contract manufacturing services in cases of capacity rupture. The raw materials are purchased to Portuguese suppliers but its origin is predominantly from North of Europe and Italy while all the outsourcing services are made within the cluster.

Regarding the “warm” collection, a pair of shoes is sold to distributors on average for 30€, while a pair of sandals is sold for 27€ (the price for the final customer is averagely 105€ for shoes and 94, 5 for sandals). Both products have margin sales of 6% in private label. In own brand the margin can vary between 10 to 15%, depending on the terms agreed with the client. The cost of producing and selling the own brand products is on average 88% of the revenues (see appendix **3** and **4** for **value chain representation**).

In my opinion Relance´s value chain has a differentiation advantage rather than cost advantage. The goal of the firm is to create quality products and one of the fundamental steps to achieve this is through purchasing specific leather. Despite not being the most expensive one on the market, this option requires the allocation of abnormal resources in the finishing stage to process it. This naturally increases production costs.

However, it’s possible to make improvements in its procurement costs by increasing capacity and eliminating the outsourcing of production and their correspondent pitfalls.

7. Industry Map

(Appendix **5**)

Industry mapping is an important tool to identify the key stakeholders and to understand how the flow of data, information, money, products and services moves between players. Within a cluster, the identification of these flows becomes extremely important because it allows recognizing improvements trough possible alliances and eventuality optimize the know-how transference and ultimately reinforce the competitive advantage.

7.1 Clients

As stated before, Relance operates only with business-to-business and focus in the international markets. Their clients can be divided in private label buyers and own brand buyers. Both types of clients are mainly wholesalers that work with independent distributors in order to get the product to the final customer. The type of client may as well vary substantially depending on the origin country, as the case of Japan illustrates. These buyers are retailers that have taken the option to buy directly.

7.2 Suppliers

Relance´s suppliers can be divided in three categories: suppliers of raw materials; contract manufacturing; and cutting and sewing.

Relance has 81 suppliers of raw materials mostly imported from Italy and North Europe. A big share of the suppliers(importers) are Portuguese small familiar business with low capacity and very low organizational structure located close to the cluster´s area. One big part of them have Relance as the biggest client.

In its existence, Relance only had two different suppliers of low chemicals leather and tried several partnerships but all failed in the requirements. At the moment the firm is searching for a new one due to dissatisfaction with the current supplier. The purchase of this essential raw material is a critical step in the supply chain of Relance that often finds hard to have access to it in the required deadlines, partly because of the interest of more powerful industries such as the automobile. These raw material suppliers are familiar businesses.

The process of cutting and sewing is outsourced representing approximately 10% of the final price. Only small adjustments to the quality are made in house.

Part of the production is outsourced through contract manufacturing in order to respond to out of capacity in peaks of demand. Relance uses a confirmation sample to liable to the client´s approval to keep the minimum levels of quality in these services.

7.3 Institutional Players

Relance has direct relationships with APPICAPS and CTCP, and indirect relationships with QREN.

APICCAPS is the Portuguese Association of Footwear Manufacturers, components, leather goods and substitutes. It provides footwear industry statistical studies, news and provides a critical help to Relance in the organization of the participation in international fairs. APICCAPS does a joint application of the shoes cluster to **QREN**(National Strategic Reference) and receives subsidies to fund the transportation of stocks, travel and accommodation of employees and other expenses with logistics.

Generally Relance invests 25 000€ per fair participation and receives subsidies of 10 000€.

CTCP is the Portuguese Technology Center of Footwear. It gives technological support and feedback to Relance´s products and production line. CTCP also provides formation of the employees, execution of physical and chemical tests, patent registries and certifications of quality. CTCP was essential in the creation of Relance´s Website. On average the firm spends less than 1000€ annually in order to perform tests to the raw materials and to the products.

The success of the marketing performed by APPICAPS in promoting to foreign markets the Portuguese shoes as a "sexy" industry is now being undertaken by CTCP under borders targeting the young labor force. This strategy takes a key role in the sustainability of the industry by implementing strategies with aim to attracting young talent to the industry.

8. Country selection methodology

The internationalization is fundamental to the sustainability of the majority of Portuguese shoes manufacturers. For most of them the internationalization process is unplanned and its success is accidental. To increase the chances of succeeding and having an effective growth, a more deliberate and planned internationalization is required.

In order to select the most appropriate country to internationalize the "warm" collection of Relance I used a research and strategic planning management tool entitled GMMSO. To start my analysis on the selection of the best market I have primarily chosen ten different countries attending to one basic required criteria. I assumed the annual average temperature had to be above fifteen Celsius degrees. Secondly I have elected fifteen specific criteria(see table **3** below) to identify the country with the highest market potential among factors as demographics, economic, local consumption and political/ legal environment. The highest ranking country(see appendix **6** for **final results**) was Australia but I decided to instead study the second result in the raking, Brazil, because the latest data of Relance showed that it was already present in Australia with four private labels and a small percentage of its own brand, accounting for 5% of the total enterprise revenues. The current terms agreement with one private label inhibits the development of its own brand in Australian territory, “closing” this market for the moment.

Table 3 Criteria for country selection

Major Criteria	Sub criteria	Weight (%)
Demographics	Income Distribution (Gini Index score)	6
	Population	7
	Population growth (%)	1
Economic Criteria	GDP (Purchasing Power Parity)	12
	GDP per capita (PPP)	2
	GDP real growth rate (%)	1
	Inflation (%) (Consumer Price Index)	5
Local Consumption/Use	Consumption of the product (by volume/unit)	11
	Annual average temperature	11
	Number of fairs/events	11
Political/Legal	Political Stability Index	6
	Corruption Perception Index (CPI) country rank	2
	Ease of doing business country rank	13
	Index of Economic Freedom country rank	2
	Tariffs/duties (%) in the selected industry	10
		Total=100

To Gini Index score was given positive relation with the value selected (bigger values corresponding to higher score). The reasoning for this is explained in (Ray & Vatan, 2013) with the creation of a model that predicts that demand for luxury goods increases with the income gap between different socio-economic groups. The study was able to empirically demonstrate that the amount of luxury goods consumption increases with the income disparities measured by Gini Index score. The demand for luxury goods is also related with the Veblen Effect because bigger income disparities create higher incentives to search and to be willing to pay more for premium products.

The number of fairs/events in the destiny country is also a key driver because it currently is the main tool of Relance to approach new markets. The **respective values of each criteria** are in the appendix **7**.

9. PESTEL Analysis Brazil

The PESTEL framework analysis provides a list of drivers that will influence a possible success or failure in the internationalization strategy. In general all the political, economic, social, technological and legal factors require the minimum conditions for doing business in Brazil.

The main advantages are the growing rates of the women's footwear consumption, with forecasts expecting an increase of 10, 3% in Brazilian footwear market value until 2018, and the latest consumption trends associated with income disparity, the Veblen Effect and imported goods. A good example of these trends is the IPhone case– Due to different taxes, Brazil is the country where it's sold more expensively – And, despite that, it has been a phenomenon of sales.

The main disadvantages are the high import duties and the urban traffic in São Paulo, which combined with high levels of bureaucracy, can lead to inefficiency.

For a more **extensive analysis** please see appendix **8**.

10. SWOT Analysis

Internal Strengths	**Internal Weaknesses**
S1 Agility in product development. ***S2*** Excellent quality, design and comfort. ***S3*** Relationship with Institutional Partners ***S4*** Respectable portfolio of clients. ***S5*** International expertise.	***W1*** Low Brand Awareness. ***W2*** Lack of capacity in peaks of demand. ***W3*** Excessive dependence of Key employees. ***W4*** Current negative values of the main financial ratios.
External Opportunities	**External Threats**
O1 The most important fairs of footwear in Latin America, *Couromoda and FRANCAL* happens annually in São Paulo. ***O2*** Synergies of *Plano Brasil Maior*. ***O3*** Greater São Paulo has a population of 19.9 million people, while São Paulo municipality is home to 11,4 million people , of which 52,6% are female. ***O4*** Partnership with local distributors. ***O5*** Brazil provides benefits for FDI(manufacturing base) for exports. ***O6*** Advantage of *Mercosur* arrangements and their associated opportunities. ***O7*** Low labor cost. ***O8*** English is a second language and is not well developed. ***O9*** Currency. ***O10*** Big levels of inequality. ***O11*** Last trends show "taste" for imported products. Footwear imports increased by 12 % in 2014 ***O12*** High percentage of footwear imports competing by cost rather quality. ***O13*** Financial system is one of the most sophisticated and solid in the world (Brazil overcame the international economic turbulence and crisis in 2008/2009) ***O14*** Forecast predicts an increase of 10, 3% in Brazilian footwear market value from 2013-2018 reaching 111, 73.6$ million in women's footwear.	***T1*** *Plano Brasil Maior* is benefiting local manufactures, including footwear and leather components, with reduction of payroll ***T2*** Urban rush hours- inefficiency in distribution ***T3*** "Death" of Mr. Silva and other key employees. ***T4*** Italy has bigger reputation in this market than Portugal(Often as image of defaulting and delayed with orders) ***T5*** In São Paulo there are 6 million of Italian descents against 3 million of Portuguese descents[i] ***T6*** Extensive and inefficient bureaucracy

11.TOWS Analysis

TOWS is derived from the SWOT and allows to create strategic options to take advantage of opportunities while minimizing the impact of impact of weaknesses and avoid threats.

11.1 Maximize External Opportunities using Strengths

S1|O3– Explore the fact that Relance is able to rapidly produce a new product, due to the agility in the product development, to adapt to the change in trends and needs of targeted segment.

S2|O10+O11+O12+O14- Enter in the Brazilian market with a range of high quality products and explore the low saturated niche market where 90% of the imports in footwear are from countries that compete by cost, being worth 87% of the total imports. Only 3% of the total value is from the Italian market that competes by quality.

S3|O1 Chose one of the fastest-growing cities in the world, São Paulo, as city of entry to the Brazilian market. The brand entrance in São Paulo is to initially be done through the participation in important fairs with the support of APICCAPS.

S4|O2+O4+O8+O9+O13 - Use its international experience to choose the right partners benefiting from *Plano Brasil Maior* assistance and absorb synergies from it.

Use also the Portuguese language and the low cultural barriers between the two countries to gain advantage over the non-Portuguese speakers when negotiating with partners and clients. Control the currency and create value from the fact that *Real* is getting stronger. Rely on the solid Brazilian financial system as a confidence index to build safe agreements with local partners.

S5|O5+O6+O7- In a more advanced stage, the establishment of an overseas manufacturing unit to reduce tariffs on imports is an option. This strategy will also allow the company to benefit from FDI subsidies and gain access to *Mercosur* agreements.

11.2 Minimize threats using strengths

S2|T1+T5+T4 -Use the excellent quality, design and comfort as differentiation factors to avoid Brazilian competitors and as drivers to increase the brand awareness.

S3+S5|T6 - Explore the opportunities of the relations with institutional partners and the international expertise to avoid losses due to extensive and inefficient bureaucracy.

11.3 Minimize weaknesses by taking advantage of opportunities.

W1+W2+W3|O1+O3+O4+O10+O11+O12 The exploration of the Brazilian market conditions will increase the brand awareness and grow the portfolio of clients, leading to the possibility of expanding Relance´s production capacity, achieving higher economies of scale and eliminating the contract manufacturing services. This will increase the profitability and improve the financial ratios.

11.4 Minimize weaknesses by avoiding threats.

W3|T3 Implement the knowledge of key employees in form of processes and establish contracts and measures to retain talent.

12.Porter’s Five Forces Analysis

In business the ability to make good profit depends on how strong the company position is in the market. The porter is a powerful tool for understanding where power lies in a business situation (See appendix **9** for **footwear industry profile** in Brazil).

12.1 Buyer Power:

The direct buyers of Relance are distributors, but the quantity of orders they request to the manufactures is related with the flow of stocks, influenced by the quantity of purchases the final client makes.

Generally, the footwear purchases are a necessity, generating high sales volumes in this type of goods. The Brazilian market is characterized by fierce competition between large number of retailers selling undifferentiated products, which provides independence and low costs to a possible buyer’s decision of changing products.

Relance manufactures a differentiated premium product, reducing substantially the necessity of its purchasing and the sales volumes but on the other hand also reduces the price sensitivity and increases the customer’s loyalty.

Overall, final buyer power is considered **moderate** because despite the size of the Brazilian market, the high number of buyers and its growth rates, the cost to switch to a competitor’s product is very low due to the inexistence of contracts or network effects. The only factor that might increase the cost of effectively switching is the brand loyalty.

Direct buyer power is assessed as **moderate**, because even though there exists a strong and fierce competition between distributors, retailers and large supermarket chains, a small group of retailers and distributors can create significant economies of scale and dominate the market.

12.2 Supplier Power

Relance will not require the service of Brazilian suppliers, thus my analysis will focus on the current suppliers. (See industry map, **p 9**).

Despite the fact that one key raw material (low chemicals leather) is becoming scarce, its current supplier is small and has no bargain power. The cost of changing suppliers is very low, however it is not easy to find reliable ones. Hence, in general we can conclude that its power is **moderate-high**.

12.3 Competitive Rivalry

The manufacturing industry in Brazil is the largest on the American continent, however a big share of it produces low cost products. Most of the manufacturing companies are not able to establish a retail business and market integration is quite rare in Brazil, with exception of popular brands that have big capabilities.

A big group of retail brands can offer attractive products for upper-middle class women's, a social group that tendentiously buys high quality level products (see **appendix 10** for the **biggest Relance's competitors** in Brazil).

Overall, rivalry in footwear industry (retailers and manufactures) is assessed as **strong**.

12.4 Threat of Substitution

In the Brazilian culture there is a significant degree of substitution between different segments. For example the use of sports footwear as a casual product is common. Using secondhand shoes or repairing them to avoid new purchase is typical in developing countries. However in the women's premium segment this does not apply significantly, making the threat of substitution **very weak.**

12.5 New entrants

The Brazilian footwear market is very attractive for new entrants because its scale and potential sales market. Legal barriers to new retail entrants are low due to little regulation. The low fixed costs, high number of suppliers and easy access to distribution channels is favorable to new entrants.

To what concerns new manufacture entrants, there is low barriers due to the small use of patents in the industry, but capital requirements, fixed costs, and know-how for manufacturing operations are substantial, especially for the premium segment where the expertise is key for developing a quality product.

The requirement for big levels of brand recognition in the high-end designer shoes makes the threat of new entrants **moderate**.

13.Mode of Entry

For many companies the international expansion is unplanned or accidental. Relance is included in this group. Its past internationalizations had origin in trade fairs where foreign customers got to know its products and signed contracts to buy them. However the internationalization was the target and happened in the early life of the company, making it a born global firm.

In order to have an effective growth, a more deliberate and planned internationalization is required.

The methodology used in the first approach to select the most appropriated entry mode consisted in the study of 10 criteria to access 12 modes of entry. By giving them a score from 0-5, it was possible to obtain a total score rank, available in the table **4** below.

Table 4 Entry mode assessment

A =Goals/Objectives	F = Regulations
B = Control	G = Market Size
C = Resources	H = Risk
D = Experience	I = Flexibility
E = Competition	J = Feedback

Entry Mode	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**TOTAL**
Corporate Owned Retail Stores	5	5	1	1	2	3	5	1	1	5	29
Indirect Export	3	1	5	4	2	2	3	5	5	1	31
Direct Export	4	2	4	3	2	2	3	5	5	2	**32**
Foreign Based Sales Branch	4	3	3	2	2	3	4	2	3	4	30
Foreign Based Marketing Subsidiary	4	3	3	2	2	3	4	2	3	4	30
Wholly Owned Manufacturing Subsidiary	5	5	1	5	4	2	5	1	1	4	**33**

Joint Venture (Manufacturing)	4	4	2	5	4	2	5	2	1	4	33
Joint Venture (Marketing)	4	4	3	4	2	3	4	3	3	4	**34**
Franchising	2	3	3	1	2	3	3	4	3	2	26
Licensing	1	3	3	1	2	3	3	4	3	2	25
Management Contract	1	2	3	1	2	3	2	4	3	2	23
E-commerce	1	1	4	2	2	2	3	5	4	1	25

The total scores were relatively close to each other because there isn´t a perfect mode of entry. One cannot expect to have control over foreign operations without undertaking high risk, or to having maximum flexibility combined with substantial resource commitment.

Despite the inexistence of a perfect mode of entry, options can be made to better achieve the strategic objectives.

At priori it is possible to rule out Franchising, Licensing, Management Contract and E-commerce because they do not apply to Relance´s business model and also would require high level of brand recognition that the firm has not yet achieved.

Relance currently has a website but its purpose is only to serve as a complement for the brand awareness. The business model does not apply to Ecommerce because it's characterized by a large number of different small orders making impossible to the firm to adjust the processes and the lead times to this type of demand.

Corporate Owned Retail Stores are also excluded due to the involvement of massive local market know-how and investment that the company is not prepared to undertake in the first approach to the Brazilian market.

Given these conclusions, I believe the maximization of Relance´s internationalization happens by following the stages of the Uppsala Model (Johanson & Vahlne ,1977):

Figure 1 Stages of the Uppsala Model

The actualization of the model in 2009 predicts a path of foreign market penetration based on the successive evolution between market knowledge & opportunities and relations, characterized by the level of knowledge, trust and commitment (Johanson & Vahlne, 2009).

Born global firms are considered an exception and do not adjust to this model (Knight, 1997). However, Relance does not have enough experience and resources to begin the process with large steps in a market with such dimension as the Brazilian one.

Literature review on International Business is not consistent on which should actually be the firm´s first approach to the process of internationalization. (Forsgren, 2002) argued against the Uppsala model, stating that the firm can opt to gain specific experience in the market through other sources, rather than relying on its own experience on the first stages. In response (Johanson & Vahlne, 2009) countered that the firm has to gain some experience of its own in order to be able to know where to get alternative access to this information, such as who has the know-how to be hired, and which strategy better adapts to the market in question.

(Gilly & Graham, 2009) supported the Uppsala model by writing that indirect exporting in small scale is always the most advisable method for the first contact with a new market. Further arguments state that this strategy reduces the cost and risk and at the same time serves as lever for learnings, essential to achieve future stages of internationalization.

Most of the Portuguese companies use Uppsala model to internationalize, mainly due to the culture of risk avoidance (Simões & Castro, 1999). However, the trend for Portuguese SME´s internationalizing to Brazil is to skip the early stages of this model due to cultural proximity between the two countries (Silva & Costa, 2002).

Recognizing that literature review is not consistent about the applicability of the model on internationalization nowadays and to culturally close countries, I decided to **adapt** its stages to Relance's case, in order to obtain long-term optimization on the process.

Relance is a born global firm, thus already has international experience in several markets and masters the incoterms. The enterprise can easily gain specific knowledge in the Brazilian market through alternative sources, such as hiring local know-how and support of government agencies and other business-related organizations. For example ABICALÇADOS and IEMI publish a yearly analysis on the Brazilian footwear sector and the Brazilian market potential study exclusively to the women's footwear. PWC report of "Doing Business and Investing in Brazil" contains the most important tips for successful business. To find out what competitors' actions, Relance can subscribe *Mundo do Marketing* Website. AICEP and *Câmara de Comércio e Indústria Luso-Brasileira* also provide assistance and valuable information.

- **Stage 1: Direct Export (1-2 years)**

In this stage, the firm skips intermediaries and establishes contracts directly with distributors or agents in the destination market.

When choosing the Brazilian intermediary it is important to define if the best option is a distributor or an agent. To do so we must have distinct factors in consideration such as size of geography targeted, warehousing and distributing system requirements, kind of promotion required, after sales service and level of penetration in the market.

Recommendations:

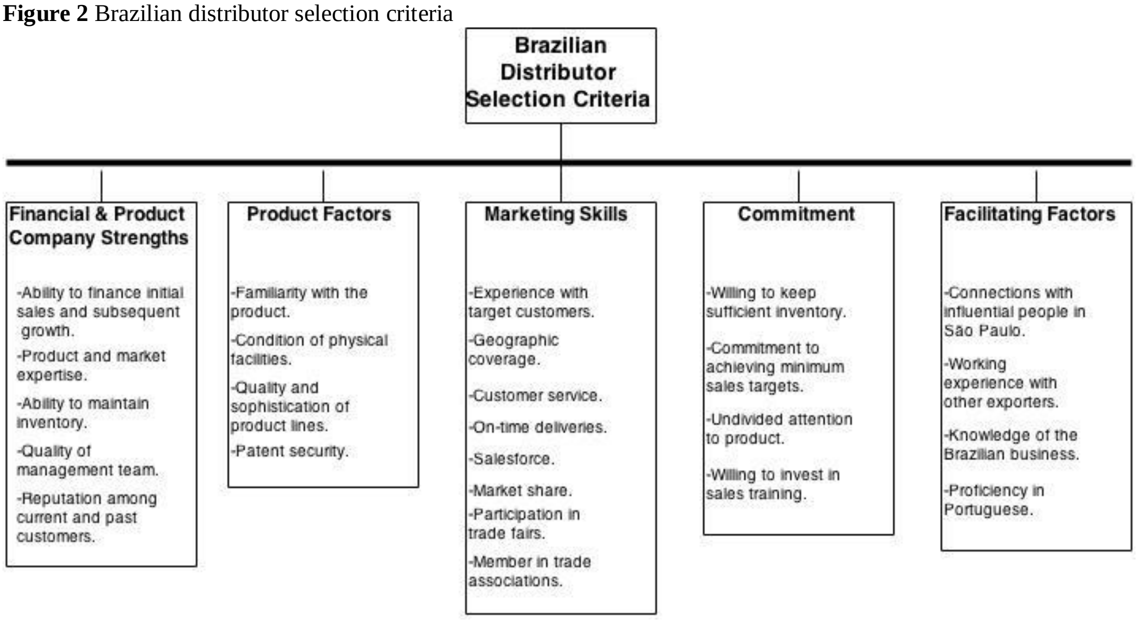
Despite the fact that a distributor is harder to control due to having more extensive functions than an agent and that discounts given to distributors are higher than the commissions given out to an agent, I recommend the use of a distributor because of the necessity of warehousing, orders processing and handling and shipping of the products, tasks an agent is not able to deliver by itself.

Depending on the trade marketing efficiency and the amount of sales in the final costumer, Relance is likely to derail the exclusivity of an intermediary, generating a less focused and less efficient promotion of the brand. Thereby the firm must be aware of this and carefully plan an operation with specific goals stated in a contract.

Taking in consideration that this stage is temporary, arrangements should be made having in mind a future termination of the contract. The distributor will be the face of Relance in Brazil and thus, the risk of strict loyalty from the final customers to the distribution channels used by the distributor may be a barrier to Relance terminate contract with it and move to the next stage.

Literature review suggests that distributor's selection is one of the most important choices that a manufacturing company can undertake in the exporting process. Thus, a careful and meticulous selection of the distributor is essential. The *Associação Brasileira dos Atacadistas e Distribuidores de Calçado* provides a list of the associated companies in São Paulo. Some of the required criteria are easily verifiable (See figure **2** below). However, to disclose the Financial Strengths, Commitment and Facilitating Factors a deep due diligence is required.

Figure 2 Brazilian distributor selection criteria



Source: Based on (Cavusgil. & Yeoh. & Mitri, 1995)

- **Stage 2: Strategic Alliance for Marketing (2-4 years)**

The enterprise exists for 10 years and its own brand represents only 17% of the revenues. This means the firm has a weakness in the brand development.

In this stage, Relance can take the brand development to the next level, beyond the capabilities of a distributor. To do so it might be necessary to eliminate the foreign market intermediaries such as sales representatives and distributors, and establish a strategic alliance for marketing. The creation of it with a company with high expertise in marketing, together with a solid knowledge of the local market, will allow Relance to focus in what it is good-producing quality products.

<u>Recommendations:</u>

Depending on the financial situation at the time of the implementation of this stage, I would recommend a Joint Venture, instead of a strategic alliance for marketing, as ideal method to achieve Relance´s goals. Both methods have advantages and disadvantages but due to the long distance, between Santa Maria da Feira and São Paulo, a Joint Venture is more favorable because its health and its maintenance are easier to manage than a Strategic Alliance as it creates a greater involvement between both parts. A Joint venture represents, furthermore, a more solid agreement.

However, in a foreseeable and realistic future a Strategic Alliance is more likely to happen due to lack of financial capability and profitability of Relance. In 2012 and 2013 the ratios of profitability of sales, return on equity and return on assets were negative due to the losses caused by the fire in 2012. Even if one analyzes the real capabilities of the firm in normal conditions, before the fire, it's not possible to predict the future course of the financial situation. In 2009 all the ratios were above the industry average for small enterprises. (See appendix **11** for **more detailed ratios**).

The ideal agreement would be with a famous and reputable brand that has given proofs of marketing efficiency. This brand should operate with complementary products. A suitable partner is Alpargatas S.A, owner of 7 brands (see appendix **12** for the **Alpargatas S.A structure**), including the successful Havaianas. None of its Brands competes in the same segment as Relance, creating the opportunity to start an interdependence relationship. Nonetheless Relance must be aware of the possible hypotheses when compromising with a bigger firm. More than 50% of the Alliances fail and 75% end up with an acquisition (Ahuja & Katila, 2001).

- **Stage 3: Overseas production and manufacturing unit**

If Relance succeeds in Brazil this next stage is necessary given that the Brazilian market characteristics will not allow the previous methods to cover its market true potential. In many cases, exporting only reaches a fraction of the market due to long delivery times and possible restrictions in the amounts (for footwear products there are no restrictions at the moment).

The main purpose of Relance at this last stage is not to get access to resources, raw materials or low cost labor. Its goal is to overcome restrictions ,taxes on imports and penetrate deeper in the Brazilian market, gaining also access to the *Mercosur* arrangements and their associated opportunities. Thus, according to (Root ,1998) the firm is a considered a "Market investor".

The ownership of a manufacturing unit in the destination country can be through merge or acquisition of an already existent production facilities, or a Greenfield Investment by the construction of the unit from the ground up. Equity Joint Venture for manufacturing is also a possibility.

<u>Recommendations:</u>

I recommend an overseas manufacturing unit only for final assembling or finishing touches of "warm" collection products with destiny to *Mercosur*. This strategy will be substantially cheaper, with lower risk and easier to implement than a complete manufacturing unit and will allow the company to focus and specialize the processes and know-how in one line of products. As final goal it will reduce the import duties by importing the unfinished products as raw materials. This strategy allows continuing to benefit from the cluster advantages in Portugal.

Unless a good opportunity appears, the FDI should be performed through a Greenfield Investment to take advantage of government incentives for the creation of new production facilities (With M&A there is no benefit from the Brazilian government). This method also creates the opportunity to establish customized facilities and to implement compatible managerial practices.

Once 100% foreign ownership is allowed in Brazil, a Wholly Owned Manufacturing Subsidiary is the best option to avoid the threat of potential partners in a joint venture , learn the quality fishing procedures and later copying it from Relance. The Brazilian team can be established with local workforce mixed with expatriate employees of Relance to give formation and ensure that the quality levels are maintained. Double Taxation problems can be easily overcome in this stage. (For **international taxation implications** on profits from Brazilian subsidiaries see appendix **13**).

When elaborating its strategy, the firm must be aware that this stage requires high levels of investment, resources, exit barriers and a long payback period.

A more rigorous study should be made, before advancing to this stage, with specialized attorneys with the support of business organizations such as the chamber of commerce.

14. Implementation Plan

The implementation plan will focus uniquely on the **first stage** due the unpredictability of the future financial capability of Relance and of the emergence of specific market opportunities. My plan proposal is focused in a two years' time frame, which I believe to be the maximum recommended time before moving to stage 2.

The entry city is São Paulo, but during the two years it's possible to expand to the "interior" of the state (The state of São Paulo is the third economy in the country).

The first physical approach to the market consists on a trip to São Paulo for the participation in a major fair to begin understanding its environment, which are the biggest players and make contact with possible distributors. Some days should be reserved for due diligence and visit distributor´s facilities. *Couromoda is* the biggest fair in Latin America but only happens annually in January. To initiate the implementation process sooner, Relance can participate in *FRANCAL* that happens in the beginning of

July. In the south hemisphere July is in the winter. However, the temperatures are relatively constant around 20 degrees, so the “warm” collection is to be presented in both fairs. After the initial implementation Relance should travel twice a year to participate in both fairs and evaluate and control the distributor´s actions on a regular basis.

14.1 Four M´s

14.1.1 Minute and money

Initial Investment	Duration (Days)	Cost (€)
1- Buy the Brazilian footwear industry report + the Brazilian women’s footwear report.	1	2 610
2-Search and contact distributors and institutions through e-mails and phone calls.	30	25
3-Register the brand at INPI.	1	110
4-Trip to São Paulo (accommodation and airplane tickets for 3).	6	3 800
5-Participation *FRANCAL*(20m ²-3 days).	3	4 600
6-Due diligence of distributors.	6	100
		11 245

14.1.2 Men

Men	**Position**	**Tasks**
Dr Pedro Ferreira	Export/Marketing Manager	-Responsible for the network and due diligence.
Dr Cláudio Pinho	Planning Department	-Organize and plan the trip and fair. - Apply to APICCAPS grant.
Dr Raquel Fernandes	Commercial Department	-Promote de product in the fair. -Talk with clients.

14.1.3 Memo (2 years)

	Objectives	**Target**	**Measurement**	**Initiative**
Financial	-Expand sales. -Increase number of clients.	-0,016% of the Brazilian women´s footwear market share in 2 years. -Payback period of 4 months.	-Sales revenues. -Sales volume. -Number of clients.	-Effective selection of distributors in São Paulo. -Differentiation by quality, prestige and status.
Customer	-Better quality, prestige and status than competitors. -Increase the brand awareness. - Create client´s	-High Level of awareness among possible customers. -Start to be recognized as a quality brand in the	-Level of awareness. -Number of sales. -Positive feedback from	-Presence in the major fairs. -Effective marketing proposal to the distributor. -Questionnaires to retailers about the customer´s perceptions.

	loyalty.	rest of Latin America.	customers.	
Internal	-Find possible partners to establish a future Strategic Alliance for marketing.	-Optimize the agreements by finding the right partner. -High levels of networking and relations.	-Number of possible candidates for agreements.	-Use the fairs and other meetings to increase the network. -Do effective due diligence to possible candidates.
Learning	-Increase the market knowledge.	-Advance to the second stage.	-Time (Maximum 2 years).	-Send own personnel to Brazil to create local know-how -Keep in contact with government agencies and other business-related organizations.

14.2 Marketing plan

14.2.1 Product

The footwear is focused on women that pursue high status imported product and at the same time search for a mix of elegance and extreme comfort. A modern and emancipated woman that has her own independency and purchasing power.

14.2.2 Price

In order to face transportation costs and high import tariffs, Relance has to increase its mark-up by increasing its average price on the "warm" collection from 28, 5 to 48€ and, depending on the contract, quantity discounts may be given to the distributors. The recommended consumer price is around 100€. The breakeven point on the average scenario is 50€ (see table **5** below).

Table 5 Financial summary

	Quantity(1 year)	**NPV(2 years)**	**Breakeven price(€)**
Pessimist scenario	105	-10989,6	175
Average scenario	1352	-2822,929	50
Optimistic scenario	10465	57642,348	44

Despite the NPV being negative both pessimist and average scenarios, one must have in account that the calculations were made only for the 2 years of the first stage and that the main objective this time frame is not obtaining a positive NPV (see appendix **14** and **15** for **detailed costs** and **financial projections)**.

The main brands have similar prices to Relance (see appendix **10** for the **main brands competing in the same segment** as Relance). To be coherent with the high prices it's necessary to promote the product as premium to benefit from the "status-seeker" customer and the Veblen Effect trends in Brazil.

The price should, as well, represent the customer's perception of unique product features such as the "softness feeling" and design. As Mr. Melo da Silva says, "Using fashionable shoes no longer needs to be painful."

14.2.3 Place

To follow the premium product strategy, it should be commercialized in the several fashion centers of São Paulo such as the Jardins neighborhood, Avenida Paulista and in the city's most sophisticated malls: Shopping Iguatemi and Shopping Cidade Jardim.

Brazilian footwear's main channels are big retailers (76, 7%), department stores(14,8%) and large supermarket chains(4,4%). Nevertheless, Relance product should be sold in multi brand specialist boutiques.

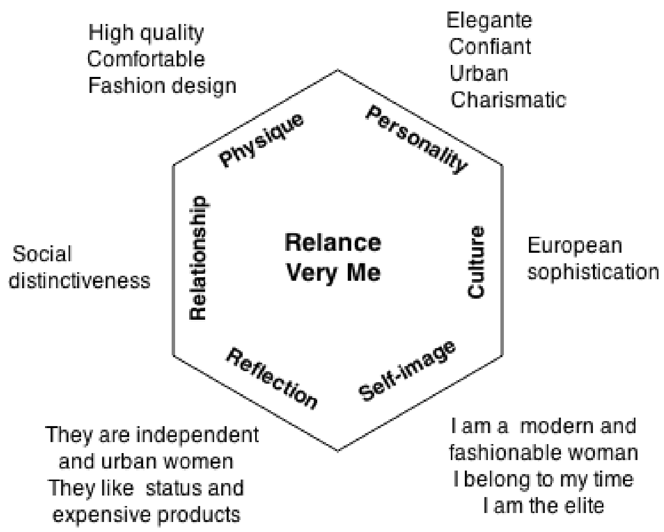
14.2.4 Promotion

In order for Relance to be able to charge high prices, it has to be promote itself as a luxury European brand by, for example, taking advantage from APICCAPS marketing campaign of Portuguese shoes synergies.

The Brand launching should be performed through product marketing campaigns and also through brand campaigns to increase consumer awareness. Brand advertising is a possibility in this stage and should be negotiated with the distributor.

In the figure **3** below depicts a proposal for the Brand identity.

Figure 3 Brand identity prism



Regarding the brand name, Relance *Very Me* should be maintained. Its meaning will not be understood by the majority of the population as English is not taught in the Brazilian schools, creating natural social distinctiveness for the elite that could afford private English classes.

15. Risk Analysis

Risk Type	**Chance**	**Motivation**	**Impact (scale1-10)**	**Countermeasure**
Political Instability	5%	-Social protest due to urban poverty could disrupt government, political stability.	Some losses in the market=3	-Monitor certain risk parameters: unemployment rate, inflation. -Prepare contracts for contingency exit strategy.
Distributor	50%	Failure in the marketing and distribution strategies.	Very low market share and brand awareness= 9	-Limit risks by having solid contracts and keep improving and developing a network of contingency distributors
Currency	30%	-Political measures to control the inflation after the World Cup and Olympic games.	Reduction of purchasing power=6	-Work with €. Let the intermediary deal with the risk.
Delayed orders	22%	-Lack of capacity(peaks of demand) and delays in the supply of raw materials. -Bad weather.	Decrease of revenues= 5	-Predict demand and create stocks(can be risky). -Control the weather forecasts to ensure the arrival on time.
Quality criteria	1%	The distributor receives the product and does not agree with the quality levels.	Total loss=10	-Negotiate the incoterms to avoid this risk. -Maintain the quality levels.

Management commitment	1%	-Consider Brazil a marginal market and neglect the dedication required. -Lack of effective control over distributor.	Very low market share and brand awareness= 9	-Get information and study possibilities before taking critical decisions.
Human capital deficit	10%	-"Death" of key employees	Possible production stop=10	-Implement standard processes. -Create contingency list with available candidates to replace them. - Increase formation and training of the remain employees.

16. Conclusions and Final Recommendations

16.1 Recommendations before internationalization

I recommend the improvement of the current production expectations software with the creation of a Gainsharing system with bonuses to reward the employees when the production overcomes the expectations. This should be combined with the intensification of the training and developing of employees with significant improvement on labor relations. This strategy would raise the motivation levels and reinforce the organizational culture, leading to the increase of product´s market competitiveness, attraction and retention of qualified personnel. This can be achieved with cooperation between CTCP and local formation centers.

The increase of the brand awareness and its values with marketing strategies, together with the portfolio of clients are necessary in order to develop the own brand share. To support these improvements I would recommend moving to another facility and expand the production line and/or starting to operate a second shift. The enlargement of the firm increases the conditions to capture economies of scale as well as the capacity to fulfill orders, and hence enhances the credibility and the negotiating power leading to revenues growth and consequent profits.

All the manufacturing companies are challenged with the decision of "make of buy". Relance is no exception and at the moment is facing problems with subcontractors. The firm processes require a high degree of precision and mistakes in vital features such as design are money and time costly. This originates preference for Vertical integration, which creates advantages such as the elimination of costs to negotiate contracts with subcontractors and the avoidance of supply interferences when suppliers go out of business, receive a better offer or are acquired by one competitor.

Despite the advantages of total Vertical Integration, in this specific case it might be very difficult to adapt the fixed capital and the labor force to peaks of demand, so I recommend the creation of strategic alliances with competitors (suppliers of contract manufacturing) in order to consistently deliver high quality products while the capacity is not expanded. This recommendation is valid because the problem of information leakage is not an issue in this industry - Relance’s featured products are in constant reformulation and lately the company has participated in various fairs, where ideas and information flows freely.

Regarding the supplier of the low chemicals leather, finding a 100% reliable supplier as soon as possible is a critical success factor. Since Relance does not have the same power in the leather market as the automobile industry, it should work closely with APIC to come up with a solution. Engaging in negotiations to create a value-chain partnership and allowing a relationship-specific investment[2] if required, might also be a solution to combat the scarcity of this important raw material.

16.2 Supply Chain Management Recommendations

Regarding the supply chain management, it’s important to be aware that, in general, the Brazilian companies are not interested in keeping large stock quantities, so the goods have to be delivered on time and in the amount required. This can be a challenge to Relance´s supply chain management because its production time is on average 6 weeks and due to the distance between the two markets the lead can be significant.

As the climate in São Paulo is stable, the “warm” collection will sell all year so it’s mandatory to start preparing a plan to move to new facilities with capacity to produce different collections in simultaneous.

Relance uniquely possesses raw materials stocks, so the whole production is in response to a specific order. But, depending on the Brazilian demand the creation of inventory levels might be required as a strategy to accomplish the seven r´s: “the right product, to the right client, in the right quantity, in the right condition, at the right place, at the right time and at the right cost”.

[2] To achieve efficiency is required an investment whose returns depend on the relationship's continuation(Crawford,1998)

16.3 Final recommendations

After the internal and external analysis I can conclude that Relance is prepared to internationalize to Brazil and should initiate its internationalization plan to Brazil by entering in São Paulo. The success of the strategy is dependent on the selection of the right distributor and on the promotion of the brand as a premium symbol.

In the first stage the choice of the distributor is the critical point faced and should be given enough effort and management commitment in its selection. When moving to stage 2, in order to create good relations with partners, due diligence is not the only required action. Cultivating the partnership to create value together is the key.

In the pessimist scenario and average scenario the NPV´s for the first two years are negative (see appendix **15** for **financial projections**). However, in case the firm cannot reach the positive NPV values of the optimistic scenario, it should maintain the investment anyway. The vital objective in this stage is to penetrate the market to acquire knowledge, observe opportunities and create a network as quickly as possible in order to be able to initiate the next steps for stage 2. To optimize the initial investment, some private labels contracts may incur as long as they do not interfere with the Own Brand, which should have full priority.

In what concerns currency risks, the enterprise should evaluate the currency to decide upon whether the use of *Euro* or *Dollar* best fits each moment's needs. When negotiating with Brazilian clients or partners, presented figures should be always in *Dollars or Reais*[3] .

Regarding the strategic objectives of doubling the share of the Own Brand, assuming a *Ceteris Paribus* situation and in the case the sales reach the optimistic scenario levels, will increase the Own Brand share by 15% every year. However, if the most probable scenario occurs, these rate drops to 2%.

The strategic objectives are ambitious but if one bases its forecasts in the past performance of the firm, will conclude that, with the required amount of preparation, they are realistic and can be accomplished from 1 to 3 years.

"To fail to prepare is to prepare to fail". (Bowden, 2004).

[3] Exchange rate is daily updated at SISCOMEX web site

Glossary

ABICALÇADOS- Brazilian Shoe Manufacturers Association.

AICEP- Trade & Investment Agency.

Acquisitions- Are when assets of the acquired company are absorbed by the acquirer and the target company disappears (Buckley and Ghauri, 2002).

Agent- (Also known as a "broker") is an entity that operates in representation of an exporting firm. It contacts clients in order to get orders. It does not assume property of the products and can work with exclusivity or not.

Annual Work Unit- "Anyone who worked full-time within your enterprise, or on its behalf, during the entire reference year counts as one unit. You treat part-time staff, seasonal workers and those who did not work the full year as fractions of one unit."[4]

APIC- Portuguese association of leather manufacturers .

Born global firm- "A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries."(Welch & Luostarinen ,1988).

Bottleneck- Points of congestion in the production line.

Breakeven Point- Sales point that cover the expenses. In this point the company does not make profits or losses.

Direct Exporting- Contract with intermediary in the target market.

Distributor - Entity that assumes the property of the products and sell it to the final clients. It can work with exclusivity or not.

Equity Joint Venture-form legally and economically separate organizations, created by two or more parent organizations that invest financial and other resources.

FDI- Foreign direct investment.

Gainsharing- "is an umbrella for a family of aggregate pay-for-performance approaches that link financial rewards for employees to improvements in the performance of the entire unit "(Welbourne,1995).

GMMSO- Strategic Planning Management Tool.

GPD- Gross Domestic Product.

Greenfield Investment- Form of FDI in which the company builds new operational facilities from the ground.

[4] The new SME definition. User guide and model declaration.

IEMI- Institute of Industrial Studies and Marketing.

IMF- International Monetary Fund.

Incoterms- International Commercial Terms published by the International Chamber of Commerce.

Indirect Exporting- Contract through an intermediary in the firm´s home country to perform all the export functions.

INPI- Instituto Nacional de Propriedade Industrial.

Joint venture- Are associations formed for a very specific purpose where two or more organizations create an independent business entity.

Lead time- delay between the placement of an order and delivery.

Mercosur-Southern Common Market.

Merger- Happens when of two or more enterprises come together to form a new enterprise.

Network effect- The value of the product and the cost to switch to a competir increases due to the amount of users.

NPV- Net Present Value.

Premium product- High price and high quality.

Strategic alliance-" Are agreements between firms in which each commits resources to achieve a common set of objectives" (Bain & Company**)**

Trade marketing- is an area of marketing focused to increasing the demand at wholesaler, retailer, or distributor level rather than at the consumer level.

Value-chain partnership- "Alliance in which one organization forms a long-term collaboration agreement with a key supplier or distributor for mutual advantage" (Gomes,E, 2014).

Veblen Effect- Describes the willingness to pay a premium price for a functionally equivalent product that is perceived to be more prestigious. (Bagwell & Bernheim,1996).

Vertical Integration- occurs when a number of sequential production stages are organized within a single firm instead of each stage corresponding to a separate firm. (Church & Ware,1999).

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A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from NOVA School of Business and Economics.

Appendices

INTERNATIONALIZATION STRATEGY

OF RELANCE TO BRAZIL

João Pedro Fonseca Girão#1475

A project carried out on the SME Competitiveness:

Internationalization Strategy Field Lab, under the supervision of:

Prof. Sonia Dahab

January 2015

Appendix 1-SME definition

Enterprise category	Staff(Annual Work Unit)	Annual turnover
Medium-sized	< 250	≤€50 million
Small	< 50	≤€10 million
Micro	< 10	≤€2 million

Source: According to European user guide and model declaration :The new SME definition.

Appendix 2-Industries' contexts

Footwear Industry in Portugal

In 2012, Portugal had 1354 enterprises employing 35355 workers. These companies achieved a total production of 74156 thousand pairs of shoes, with a value of 1797, 03 million euros. The Portuguese market was responsible for the consumption of 51787 thousand pairs, valued at 614,288 million euros .The last trends in production shows a considerable raise from 2010 to 2012, opposing the descending tendency seen since the beginning of the century XXI.

The current location of Relance, Santa Maria da Feira, is the second municipality with higher number of employees (4 223 in 2011) while the Municipality of the firm´s previous facilities, São João da Madeira, is the 5th with 1 760 employees.

By analyzing the revealed comparative advantage rates[5] it is possible to verify that Portugal is definitely an outlier in the European exports, with footwear having a contribution to Portuguese exports about five and a half times more than global exports. Big markets such as China and Italy only have three times more of contribution.

The ladies footwear represented in 2012 43% of all the production. Its average price is moving close to 30 Euros, empowering its importance in terms of value over quantity when comparing to other Asian producers.

International analysis of the footwear industry

In 2013 more than 22 Billion pairs worldwide were produced. China is the unquestionable top producer accounting for 2/3 of total production and Asia has been

[5] The index is calculated by comparing the share of footwear exports value in the given country with the share of footwear global exports value.

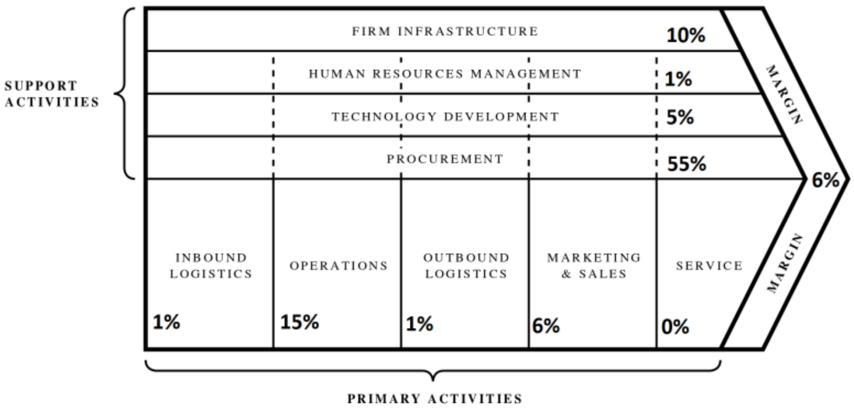
responsible for 87% of the world's supply. **Brazil**, responsible for 4% of the production, is without a doubt the largest producer outside the Asian continent.

Regarding worldwide consumption, Asia is the most dynamic continent with a raise in the last four years from 49% to 51% in contrast with the European marker that dropped from 20% to 17%. **Brazil** is the only country of South America in the list of the top 10 consumers.

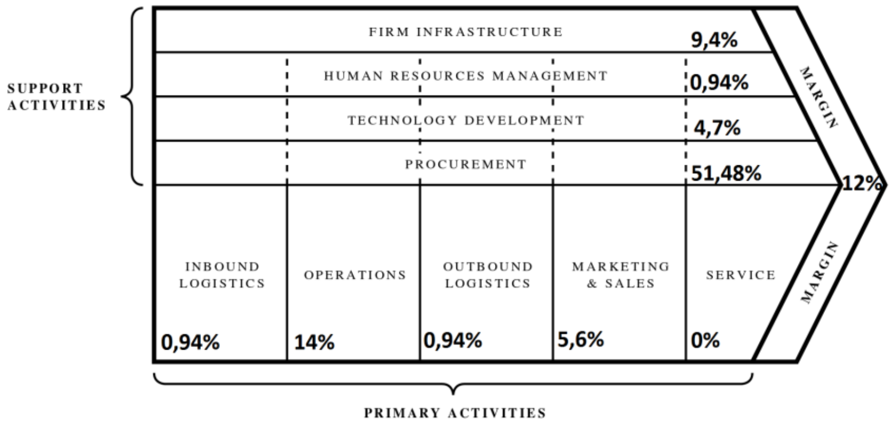
World exports reached 14.4 billion pairs valued at 119 billion US dollars due to the continuous trend of price increase that reached last year $8.27on average. Exports market reveals huge asymmetries with Asia being again the leader, accounting to 86% of world values, more than six times the amount of exportations of all the other continents put together. The exporter continent number two is Europe with only 11% followed up by the remaining continents with exports inferior to 1% of the world total. China is the country with the greatest exports values (73.4%) and Italy is the first European country appearing in the ranking, with 1.5% of the world exports share.

The last trends concerning imports shows a small decrease in the European share to 36% while North America alone was responsible for 24% of the global imports, leading the top 10 rank.

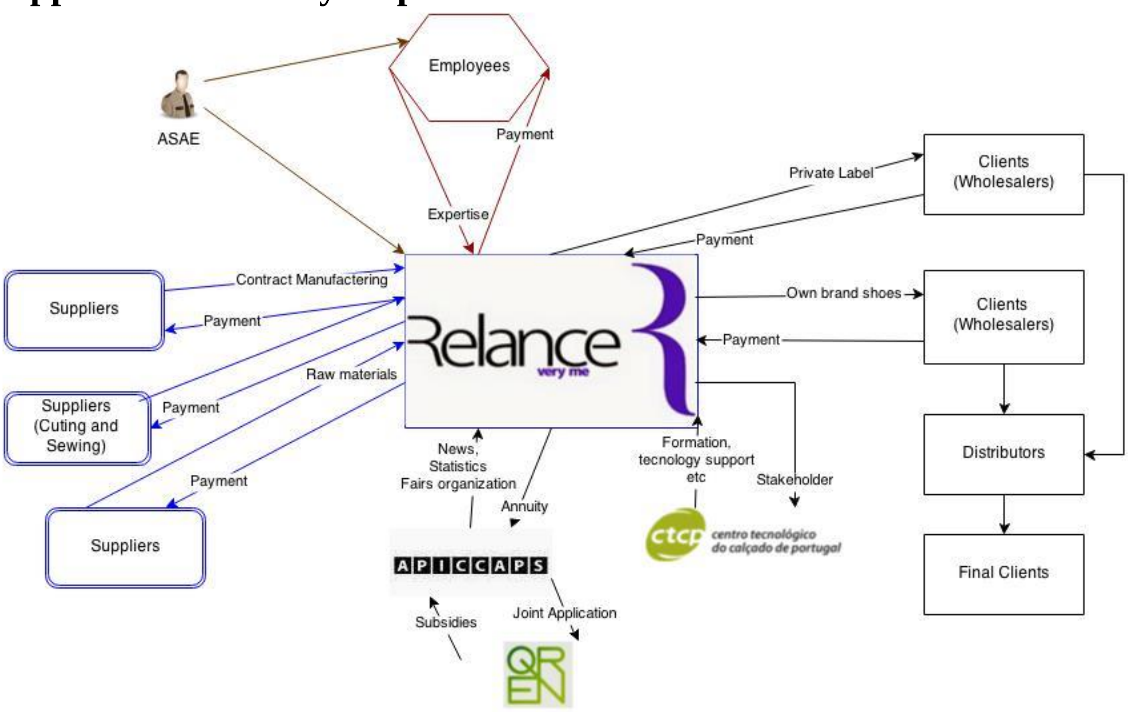
Appendix 3-Value Chain for private label



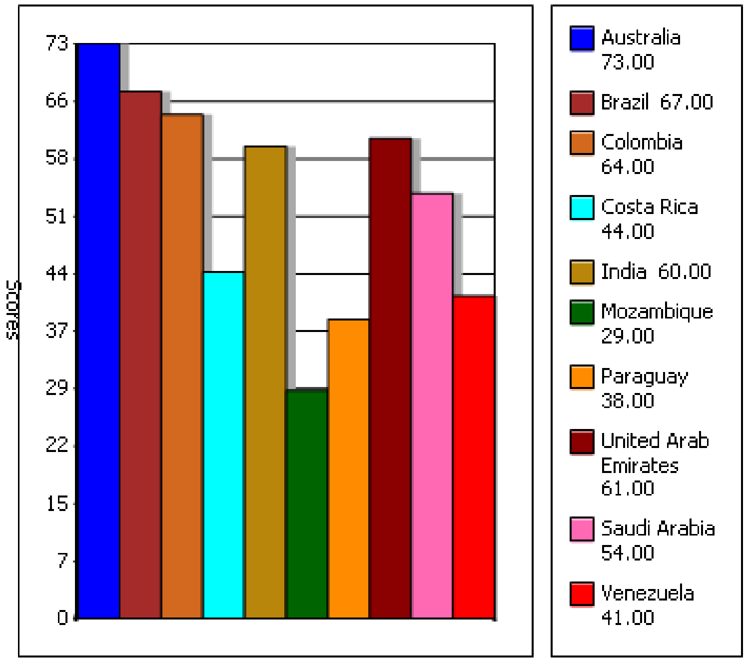
Appendix 4-Value Chain for own brand



Appendix 5-Industry map



Appendix 6-Results of country selection



Appendix 7-Country selection weighs and values (Output GMMSO)

Criteria	Variable	Year	Unit	Weight
Demographics	**Population**	**2014**	**Inhabitants**	**7,0**
Country	**Value**	**Rank**		
Australia	22507617,00	7		
Brazil	202656788,00	2		
Colombia	46245297,00	3		
Costa Rica	4755234,00	10		
India	1236344631,00	1		
Mozambique	24692144,00	6		
Paraguay	6703860,00	8		
United Arab Emirates	5628805,00	9		
Saudi Arabia	27345986,00	5		
Venezuela	28868486,00	4		
Demographics	**Population growth (%)**	**2014**	**Inhabitants**	**1,0**
Country	**Value**	**Rank**		
Australia	1,09	8		
Brazil	0,80	10		
Colombia	1,07	9		
Costa Rica	1,24	6		
India	1,25	5		
Mozambique	2,45	2		

Paraguay		1,19	7	
United Arab Emirates		2,71	1	
Saudi Arabia		1,49	3	
Venezuela		1,42	4	
Demographics	**Income Distribution (Gini Index score)**	**000**	**Index**	**6,0**
Country		**Value**	**Rank**	
Australia		30,30	10	
Brazil		51,90	3	
Colombia		55,90	1	
Costa Rica		50,30	4	
India		36,80	7	
Mozambique		45,60	5	
Paraguay		53,20	2	
United Arab Emirates		31,00	9	
Saudi Arabia		32,00	8	
Venezuela		39,00	6	
Economic Criteria	**GDP (Purchasing Power Parity)**	**2013**	**Trillion**	**12,0**
Country		**Value**	**Rank**	
Australia		1,49	3	
Brazil		2,19	1	
Colombia		0,37	7	
Costa Rica		0,06	8	
India		1,67	2	
Mozambique		0,01	10	
Paraguay		0,03	9	
United Arab Emirates		0,39	6	
Saudi Arabia		0,72	4	
Venezuela		0,41	5	
Economic Criteria	**GDP real growth rate (%)**	**2013**	**%**	**1,0**
Country		**Value**	**Rank**	
Australia		2,50	8	
Brazil		2,30	9	
Colombia		4,20	3	
Costa Rica		3,50	6	
India		3,20	7	
Mozambique		7,00	2	
Paraguay		12,00	1	
United Arab Emirates		4,00	4	
Saudi Arabia		3,60	5	
Venezuela		1,60	10	
Economic Criteria	**GDP per capita (PPP)**	**2013**	**$**	**2,0**
Country		**Value**	**Rank**	
Australia		43000,00	1	
Brazil		12100,00	6	
Colombia		11100,00	7	

Costa Rica		12900,00	5	
India		4000,00	9	
Mozambique		1200,00	10	
Paraguay		6800,00	8	
United Arab Emirates		29900,00	3	
Saudi Arabia		31300,00	2	
Venezuela		13600,00	4	
Economic Criteria	**Inflation (%) (Consumer Price Index)**	**2013**	**%**	**5,0**
Country		**Value**	**Rank**	
Australia		2,40	4	
Brazil		6,20	8	
Colombia		2,20	2	
Costa Rica		5,60	7	
India		9,60	9	
Mozambique		4,40	6	
Paraguay		2,30	3	
United Arab Emirates		1,30	1	
Saudi Arabia		3,70	5	
Venezuela		56,20	10	
Local Consumption/Use	**Consumption of the product (by volume/unit)**	**2013**	**Million pairs**	**11,0**
Country		**Value**	**Rank**	
Australia		148,00	3	
Brazil		816,00	2	
Colombia		128,00	4	
Costa Rica		16,00	9	
India		2068,00	1	
Mozambique		----		
Paraguay		18,00	8	
United Arab Emirates		58,00	7	
Saudi Arabia		102,00	5	
Venezuela		66,00	6	
Local Consumption/Use	**Annual average temperature**	**1990**	**Celsius degrees**	**11,0**
Country		**Value**	**Rank**	
Australia		15,00	10	
Brazil		19,70	3	
Colombia		19,60	4	
Costa Rica		19,60	4	
India		17,70	8	
Mozambique		18,50	6	
Paraguay		17,70	8	
United Arab Emirates		21,00	1	
Saudi Arabia		18,20	7	
Venezuela		20,30	2	

Local Consumption/Use	**Number of fairs/events**		**2014**	**nº**	**11,0**
Country		**Value**	**Rank**		
Australia		4,00	1		
Brazil		4,00	1		
Colombia		3,00	4		
Costa Rica		0			
India		4,00	1		
Mozambique		0			
Paraguay		0			
United Arab Emirates		0			
Saudi Arabia		0			
Venezuela		0			
Political/Legal Environment	**Political Stability Index**		**2013**	**Index**	**6,0**
Country		**Value**	**Rank**		
Australia		1,00	1		
Brazil		-0,30	5		
Colombia		-1,30	10		
Costa Rica		0,70	3		
India		-1,20	9		
Mozambique		-0,30	5		
Paraguay		0,40	4		
United Arab Emirates		0,90	2		
Saudi Arabia		-0,40	7		
Venezuela		-1,10	8		
Political/Legal Environment	**Corruption Perception Index (CPI) country rank**		**2013**	**Rank**	**2,0**
Country		**Value**	**Rank**		
Australia		9,00	1		
Brazil		72,00	5		
Colombia		94,00	7		
Costa Rica		49,00	3		
India		94,00	7		
Mozambique		119,00	8		
Paraguay		150,00	9		
United Arab Emirates		26,00	2		
Saudi Arabia		63,00	4		
Venezuela		160,00	10		
Political/Legal Environment	**Ease of doing business country rank**		**2014**	**Rank**	**13,0**
Country		**Value**	**Rank**		
Australia		10,00	1		
Brazil		120,00	7		
Colombia		34,00	3		
Costa Rica		83,00	5		
India		142,00	9		

Mozambique		127,00	8	
Paraguay		92,00	6	
United Arab Emirates		22,00	2	
Saudi Arabia		49,00	4	
Venezuela		182,00	10	
Political/Legal Environment	**Index of Economic Freedom country rank**	**2014**	**Rank**	**2,00**
Country		**Value**	**Rank**	
Australia		3,00	1	
Brazil		114,00	7	
Colombia		34,00	3	
Costa Rica		53,00	4	
India		120,00	8	
Mozambique		128,00	9	
Paraguay		78,00	6	
United Arab Emirates		28,00	2	
Saudi Arabia		77,00	5	
Venezuela		175,00	10	
Political/Legal Environment	**Tariffs/duties (%) in the selected industry**	**2014**	**%**	**10,0**
Country		**Value**	**Rank**	
Australia		1,00	1	
Brazil		35,00	10	
Colombia		15,00	6	
Costa Rica		14,00	5	
India		10,00	4	
Mozambique		25,00	9	
Paraguay		21,00	8	
United Arab Emirates		5,00	3	
Saudi Arabia		5,00	3	
Venezuela		20,00	7	

Appendix 8-Pestel Analysis

The **political** environment in Brazil is stable with the election of the government in the past 26 of September 2014, giving the 4º consecutive leadership of PT (workers party), despite the lowest difference ever in the votes to the second candidate, the analysts believe the population is not divided .

In the list of the fifteen most problematic factors for doing business[6] , government instability/coups were one of the less mentioned by the respondents (business executives). Inefficient government bureaucracy was one of the most stated despite the plans of the government to reduce the cost of doing business.

[6] The Global Competitiveness Report 2013–2014

Trade barriers have been reduced through free trade agreements (e.g. NAFTA, *Mercosur*) but Imports tariffs are still high in Brazil and are usually established according to the government's current strategy to stimulate or protect the local market and its balance of trade. Through the product code it was possible to verify that the current duties on the "warm" collection were of 35%.

A strategy called *Plano Brasil Maior* that aims to increase national competitiveness is in progress. This strategy is implemented via incentives for technical innovation, research and assistance for creating competitive advantages for exporting industries. Beyond aiming to reduce costs related to doing business, *Plano Brasil Maior* is also taking measures to help Brazilian companies getting direct access to innovation, financing and qualified labor force.

The **economic** situation has been improving in the last decade, in part thanks to the commitments of PT to control the inflation, the exchange rate and the fiscal restraint. As a result Brazil has overcome the United Kingdom and has become the 6th biggest economy in the word. IMF predicts that it will reach the 5th position in 2015 and the 4th in 2030. In the last 5 years the GPD grew 13.8%, reaching in 2013 the value of $2.416 trillion with an annual real growth rate of 2, 3%.

Last year 816,00 million pairs were consumed in brazil and the women's footwear had a market value of 9581,54 million Euros. Forecasts expect an increase of 10, 3% in Brazilian footwear market value until 2018.

Foreign luxury brands such as Jimmy Choo, Louis Vuitton and Valentino began to internationalize to Brazil in the mid-90s by opening store-in-store boutique, after the import restrictions were abolished. Nowadays the designer clothing and footwear represents 35% of the total market value in luxury goods.

The Federation of Brazil is divided into 26 states and 1 Federal District (See figure bellow) and its **social-cultural** structure is complex with different ethnic backgrounds. It has a population of 202,656,788 inhabitants of which 70,232,291 (35%) are women between 15 and 64 years old (see figure **4** below for population distribution). Social programs such as *Bolsa Familia*, have raised tens of millions of people out of poverty and nowadays more than half of the population is considered to be middle class. This has been responsible for a high internal demand, although poverty and income inequality remain strongly present in Brazil´s society.

Despite the unfavorable import restrictions situation of extreme protectionism to national industry with high tariffs on imports, the Veblen Effect seems to be multiplied in what concerns foreign products. Possessing an imported product often has the symbol of high status, prestigious and wealth. A good example of this phenomenon is the fact that the most expensive iPhone 6 of the world is sold in Brazil, after a tax burden of 70% for a price of 3199 Brazilian *Reais.*, equivalent to 980.6 euros, more than four times the minimum national wage of 229.52 €. In the day of its launch the line had the extremely high duration of 10 hours. In 2012 around 24,8 million (13%) of the Brazilian population had a smart phone, in which 1,78 million were iPhones.

Associating the Brazilian lifestyle with low-cost is an error nowadays. It changed due to inflation high levels, making Brazil no longer a cheap place to live. In general the cost of labor of unqualified workers is lower comparing with developed countries, and higher when referring to qualified personnel. On average the cost of living in São Paulo is 32% more expensive than in Oporto and 11% more than in Lisbon.

The most important **technological** factors such as basic transport and communications infrastructures are acceptable. The most dynamic transportation is the road transport. The air transportation is well developed and the railroads are poor and mainly located in the south. The long-distance and intercity traffic are reliable but the urban transportation presents significant problems due to delays in rush hours.. In order to improve the air quality and the reduction of traffic during the rush hour, in 1997 the state authorities implemented a plan of restrictions to circulation in the city to all private or company vehicles between 7 am to 10 am and 5pm to 8 pm. This plan was extended to trucks in 2008. The vehicles are controlled by the police with the support of electronic control. The rule of the restriction consists in prohibiting the circulation of the vehicle according to following digits in their license plate:

Table 6 Circulation restrictions

Days of prohibition	**Digits**
Monday	1 and 2
Tuesday	3 and 4
Wednesday	5 and 6
Thursday	7 and 8
Friday	9 and 0

Critics to the program claim that the restrictions are a failure because the low quality of public transportation encouraged the population to buy a second vehicle in order to avoid the restrictions and in the end the traffic increased.

The communications are controlled by private companies and regulated by the Brazilian Agency of Telecommunications, guarantying its good operation.

Environmental conditions in Brazil are favorable to summer collections, with a national average temperature of 19.7 Celsius Degrees. Regarding São Paulo municipality, one of the fastest growing cities in the world, its climate is humid subtropical and its average temperature is 19,8 °C , with the hottest month reaching 22,7°C and the coldest 16,1°C

The **legal** system is slow but is effective in protecting against discrimination to international investors and safeguarding their basic rights of personal liberty, security and property ownership. In the Global Competitiveness Index 2014 property rights and intellectual property protection were ranked as 51º and 80º respectively, among 148 countries. Patents of an industrial model or design have the duration of 15 years, trademarks registrations and Industrial drawings have the duration of 10 years and are regulated by the *Código de Propriedade Industrial* . Copyright is protected by the following conventions and treaties:

Table 7 Copyright conventions and treaties

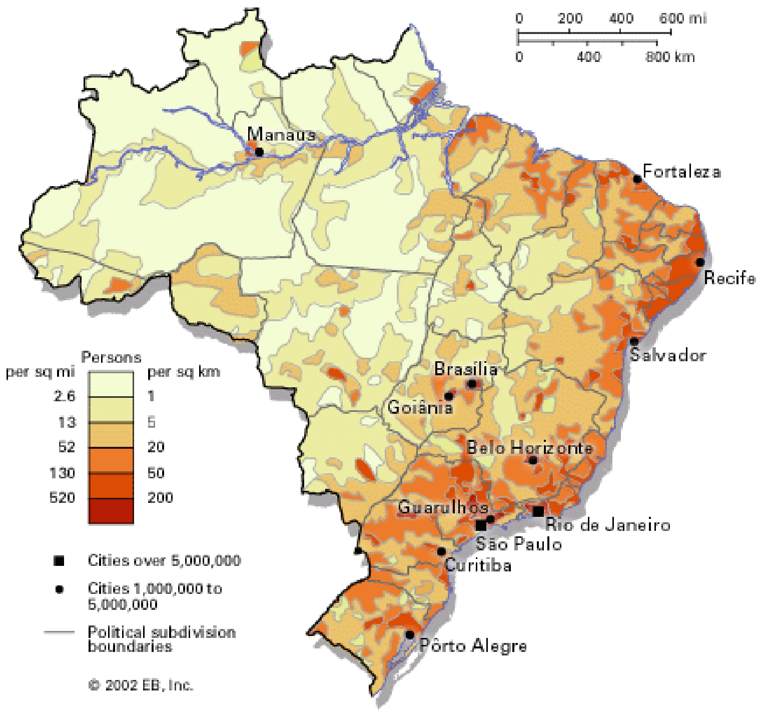
Berne Convention
Paris Convention on the protection of industrial property
Washington Patent Cooperation Treaty
World Intellectual Property Organization

Brazil is a member of the following treaties and has signed the agreements listed below:

Table 8 Treaties and agreements Brazil has signed

Co-operation Agreement with the EU
International Convention on the Harmonized Commodity Description and Coding System (HS Convention)
Latin American Integration Association (LAIA)
Organization for Economic Co-operation and Development (OECD)
Southern Common Market (Mercosur)
World Customs Organization (WCO)
World Trade Organization (WTO)

Figure 4 Population and political subdivision



Source:http://www.brazilmycountry.com/brazil-map/brazil-population-map/

Appendix 9- Footwear industry profile in Brazil

The following analysis was published by Market Line in 2014 about 2013, where the footwear **retailers are the players** and the footwear **manufacturers are the key suppliers**

Figure 5 Drivers of buyer power in the footwear market in Brazil

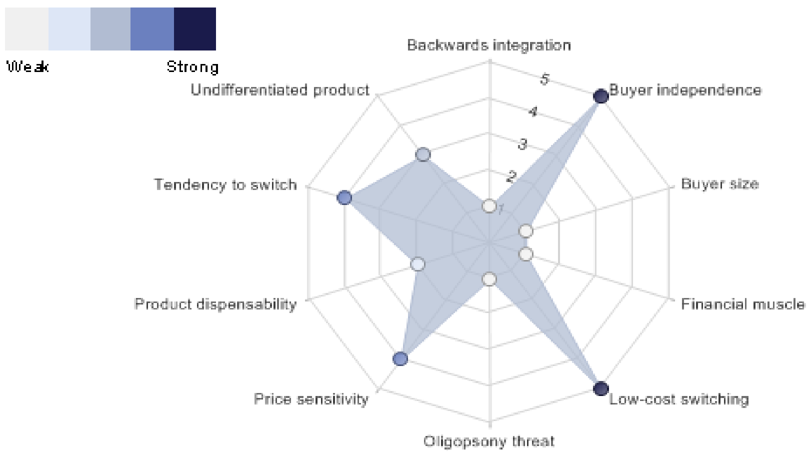


Figure 6 Drivers of supplier power in the footwear market in Brazil

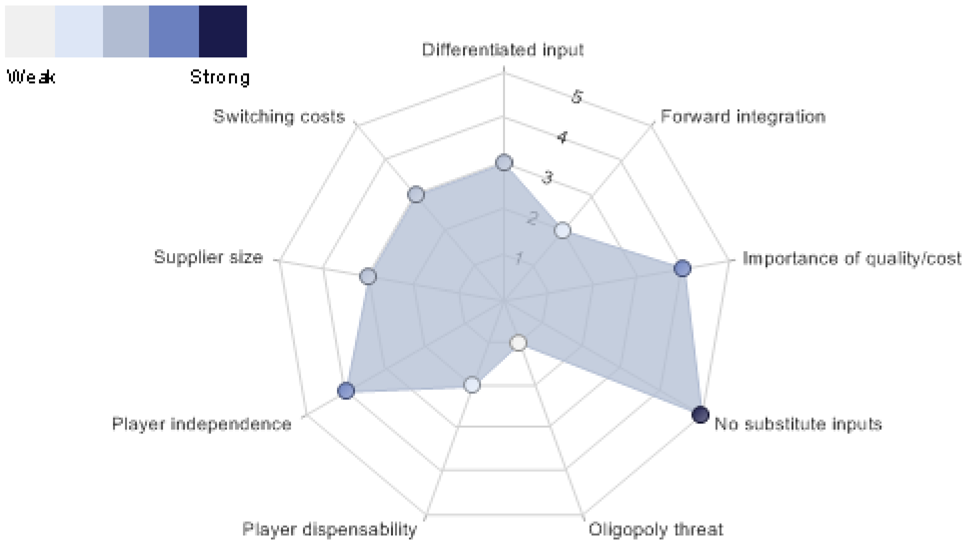


Figure 7 Factors influencing the likelihood of new entrants in the footwear market in Brazil

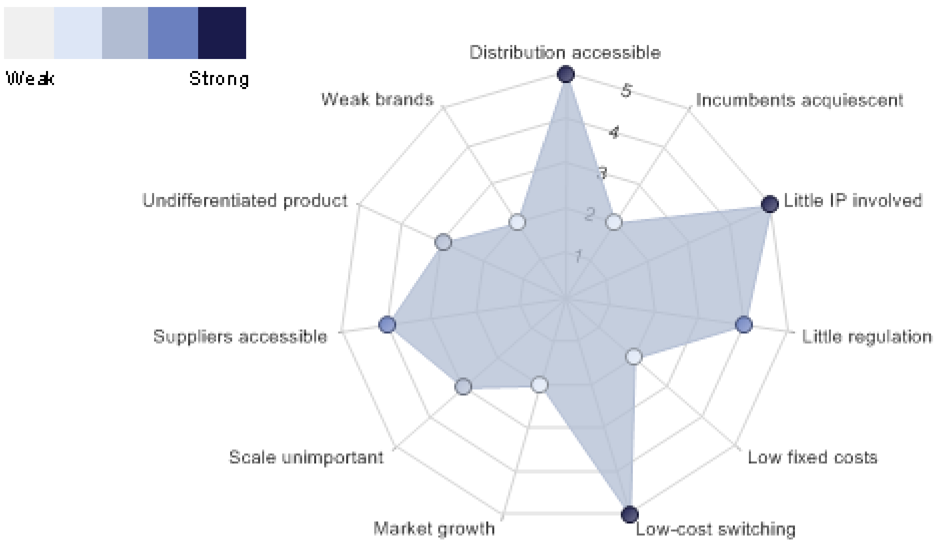


Figure 8 Factors influencing the threat of substitutes in the footwear market in Brazil

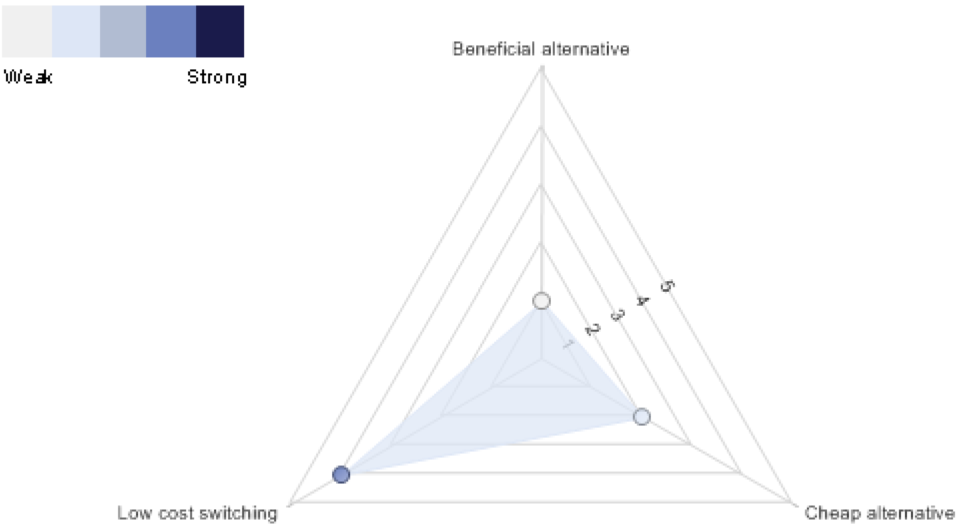
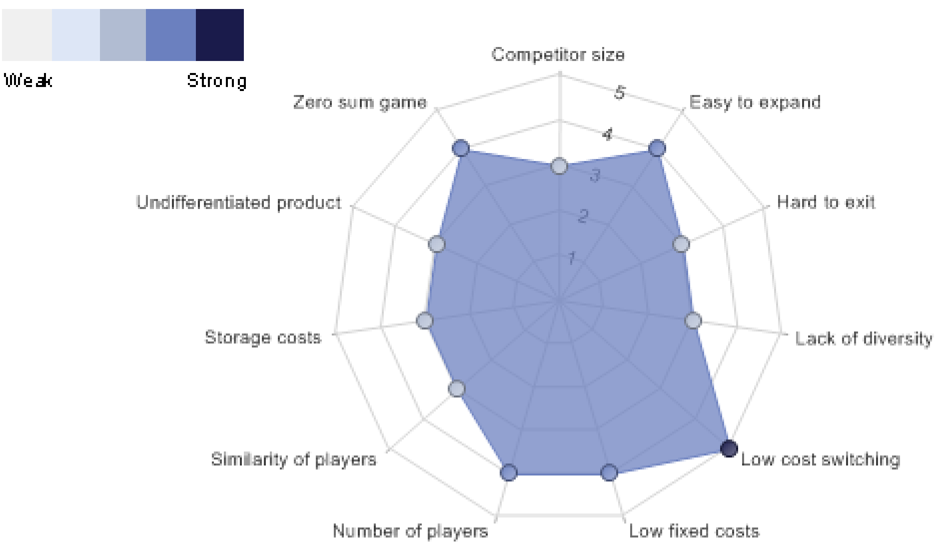


Figure 9 Drivers of degree of rivalry in the footwear market in Brazil



Source: Market line 2013

Appendix 10-The main brands competing in the same segment as Relance in Brazil.

Brand	Women´s footwear Prices(€)
Forum	90 -250
Colcci	50-180
Capodarte	60-250
Zaferino	90-260
Santa Lolla	60-120

Luiza Barcelos	60-400
Arezzo	40-160
Tatiana Loureiro	90-240

Appendix 11-Ratio analysis

Ratio analysis is useful to understand the firm's history and the evaluation of its present position. Its analysis is a key action to allow the financial manager to anticipate and to be prepared to reactions of investors and creditors.

Credit analysis

	2009	2012	2013	Industry Average for small enterprises
General liquidity	1,49	1,65	1,39	1,67
Financial autonomy (%)	29,51	15,41	11,73	29,34
Debt capacity (%)	83,31	35,13	35,44	77,68
Solvency (%)	41,87	18,21	13,29	80,54
Cost of financing	-	16 200,40	22 201,60	32 525,35

Profitability analysis

	2009	2012	2013	Industry Average for small enterprises in Portugal
Profitability on sales (%)	4,17	-4,78	-1,59	1,04
Return on equity (%)	42,9	-80,52	-24,26	17,38
Return on assets (%)	12,66	-12,40	-2,85	2,71

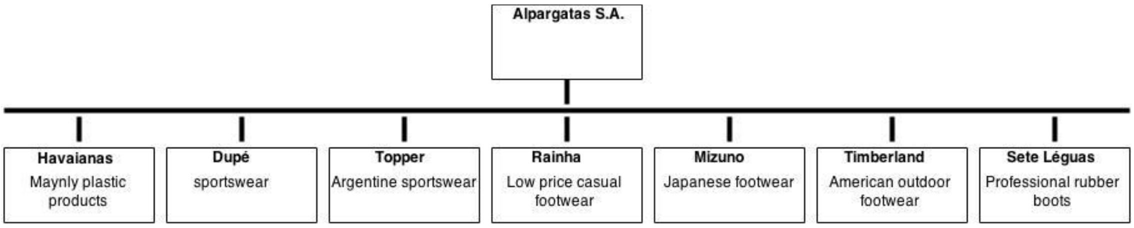
Source: Informa DB

Comparable Data from one major competitor of Relance

Arezzo S.A	2009	2012	2013
Return on assets(%)	22.7%	16.9%	16.5%

Source: Market line

Appendix 12-Alpargatas S.A structure



Appendix 13-International taxation implications on subsidiaries

Relance subsidiary will be incorporated in Brazil and therefore considered resident and taxed under the worldwide taxation system.

Small enterprises with annual gross income not exceeding 3.6 million *Reais* may be elected to be taxed under a simplified regime under the Brazilian taxation system. Brazilian corporate income tax is levied on the taxable profits of an entity at a rate of 15% with a maximum of 34%.

Under the Portuguese participation exemption regime in force since the first of January 2014, profits distributed to a Portuguese company by a non-resident subsidiary are exempt from tax in Portugal, subject to the following conditions:

Conditions	**Relance´s case**
The recipient is not a transparent entity and has held a minimum of 5% shareholding.	✓
The distributing company is not resident in a black-listed jurisdiction.	✓
The distributing company is subject to a tax whereas the applicable tax rate may not be inferior to 60% of the Portuguese CIT. The tax rate condition may be waived as long as the distributing entity conducts an active trade or business.	✓

In case one of the Portuguese employees is expatriated to Brazil, he will be considered resident of tax purposes in cases of:

- Foreigners who hold a permanent or a temporary visa with a local employment contract from the date of arrival;
- Foreigners who hold a temporary visa, but no local employment contract, after completing 183 days of residence in Brazil within any 12-month period.

In case the employee of Relance stays more than 183 days working in Brazil he will not be taxed in Portugal under the worldwide system.

Sources:

- International Taxation-Basics in a Nutshell Deloitte&Associados S ,A;
- Deloitte International Tax Brazil Highlight 2014;
- Investment guide to Brazil 2014.

Appendix 14-Export terms, costs and documentation

14.1 The Main Brazilian intervenient institutions

Central bank of Brazil is the organization responsible for the regulation of the cambial movements concerning import and export.

Chamber of foreign commerce is the entity that establishes the norms.

Secretariat of the federal revenue is the organization that does the physical inspection of the goods and documentation.

Source: Exporting to Brazil- formalities and general considerations- Aicep 2010

14.2 Main ports and airports

São Paulo (Porto of Santos/ Airport of Guarulhos/ airport of Viracopos).

14.3 Costs of transportation, insurance and customs clearance of exportation from Leixões port to Santos Port

	Maritime **(Transit time 20 days)**	Air **(Transit time 2 days)**	Pick up at Relance
Pessimist scenario(1)	367,5€	237,5€	50€
Average scenario(2)	367,5€	545,78€	50€
Optimistic scenario(3)	916,03€	2934,6€	50€

Source: Based on prices of *Euroatla*.

	scenario1	scenario2	scenario3
FOB	5040	64896	502320
Transportation + insurance	237,5	367,5	916,03
CIF	5277,5	65263,5	503236
Import tax	0,35	0,35	0,35
A	1847,125	22842,23	176132,6
IPI	0	0	0
B	1847,125	22842,23	176132,6
PIS	0,0165	0,0165	0,0165
COFINS	0,086	0,086	0,086
Siscomex	20 €	20 €	20 €
C	1.867 €	22.862 €	176.153 €
ICMS	0,82	0,82	0,82
Total	**2.277 €**	**27.881 €**	**214.820 €**

Source:

- Tariffs rates based on CCILB values for the shoes and sandals product codes
- Calculation formulas based on “ Export to Brazil- formalities and general considerations” from AICEP

Appendix 15-Financial Projections

Based on 2014 own brand sales of relance (10 months) I proportionally estimated three annual scenarios:

•Pessimist scenario- Figures of the worst performing market (France);

•Average scenario- The average exports per country (ratio between total exports and nº of countries where the brand is present);

•Optimistic scenario- Based on the best performing market (Slovenia).

By calculating the average manufacturer’s selling price(28,5) and the average selling price paid by the final consumer(99,75€) I could discover the average quantities sold.

Using estimated selling prices and the market value of the women´s footwear in Brazil (9581, 54 Million €), was possible to reach the forecast bellow:

	Quantity	B2B value	B2C value	Brazilian Market share
Pessimist scenario	105	5.040,00 €	15.750,00 €	0,00016439%
Average scenario	1352	64.896,00 €	202.800,00 €	0,00211669%
Optimistic scenario	10465	502.320,00 €	1.569.750,00 €	0,01638399%

Discount rate(WACC)	**0,067112**	Rf(10-year Treasury German bond)	0,0145
Ke= Rf + B(Rm-Rf+CRP)	0,1175	B	1
Kd	0,05	Rm	0,089
t	0,21	D/(D+E)	0,646
Country Risk Premium(CRP)	0,0285	E/(D+E)	0,354

Source:

- http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
- Bloomberg
- Relance’s balance sheet statement

Pessimist scenario			
		Year 1	Year 2
Revenues		5040	5040
Costs of producing and selling		2394,8	2394,8
Transportation costs		50	50
Shipment costs		140	140

Tarrifs		2.277 €	2.277 €
EBITDA		178,09329	178,09329
EBIT		178,09329	178,09329
Taxes(Corporate tax 21%- 2015)		37,399591	37,399591
Earnings		140,6937	140,6937
Cash Flow		140,6937	140,6937
DCF		131,8453	123,55338
Hurdle rate	0,067112		
Initial investment	11245		
NPV	-10989,6		

Average scenario			
		Year 1	Year 2
Revenues		64896	64896
Costs of producing and selling		30827,165	30827,165
Transportations costs		50	50
shipment costs		265	265
Tarrifs		27881	27881
EBITDA		5872,835	5872,835
EBIT		5872,835	5872,835
Taxes(Corporate tax 21%- 2015)		1233,2954	1233,2954
Earnings		4639,5397	4639,5397
Cash Flow		4639,5397	4639,5397
DCF		4347,7532	4074,3176
Hurdle rate	0,067112		
Initial investment	11245		
NPV	-2822,929		

Optimistic scenario			
Revenues		502320	502320
Costs of producing and selling		238602,8	238602,8
Transportations costs		50	50
shipment costs		811,03	811,03
Tariffs		214820	214820
EBITDA		48036,17	48036,17
EBIT		48036,17	48036,17
Taxes(Corporate tax 21%- 2015)		10087,596	10087,596
Earnings		37948,574	37948,574
Cash Flow		37948,574	37948,574

DCF		35561,941	33325,407
Hurdle rate	0,067112		
Initial investment	11245		
NPV	57642,348		

Scenario	Breakeven Price(€)
Pessimist	175
Average	50
Optimistic	44