

# **The Strategy for Internationalization of Brazilian Meat Industries and the Role of the Development Bank**

*A Estratégia de Internacionalização de Empresas de Carnes Brasileiras e o Papel do Banco de Desenvolvimento*

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**Abstract:** The main objective was analyzing the internationalization process of Brazilian companies that operate in the animal protein sector (beef, pork, and poultry) from the year 2000 and the role of the Brazilian Development Bank (BNDES) in this process. The article was developed using a qualitative methodological approach by means bibliographical and documental survey. The data published in annual reports from companies listed in BM&FBOVESPA and the BNDES's annual reports were analyzed. The main strategy implemented by Brazilian companies has been the productive diversification through the acquisition of companies (processing industries and distributors) in producing countries that do not face great resistance for export (Uruguay, Argentina, Australia) and in the major consumers markets (U.S. and Europe). These companies are funded directly or indirectly with BNDES resources.

**Keywords:** Internationalization; Financing for the internationalization; Development Bank; Brazilian companies; Meat sector

**Resumo:** Objetivou-se analisar o processo de internacionalização das empresas brasileiras que atuam no setor de proteína animal (bovinos, suínos e aves) a partir do ano de 2000 e o papel do Banco Nacional de Desenvolvimento Econômico e Social (BNDES) nesse processo. O artigo foi desenvolvido através de uma abordagem metodológica qualitativa, a partir de pesquisas bibliográfica e documental. Foram analisados os dados publicados nos relatórios anuais das empresas listadas na BM&FBOVESPA e os relatórios anuais do BNDES. A principal estratégia desenvolvida pelas empresas brasileiras foi a diversificação produtiva, através da aquisição de empresas (indústrias processadoras e distribuidores) em países produtores que não enfrentam grande resistência para exportação (Uruguai, Argentina, Austrália) e nos grandes mercados consumidores (Estados Unidos e Europa). Essas organizações são financiadas direta ou indiretamente com recursos do BNDES.

**Palavras-chave:** Internacionalização; financiamento para a internacionalização; Banco de desenvolvimento; companhias brasileiras; setor de carnes.

**JEL:** M16.

## **Introduction**

The Brazilian animal protein sector accounts for approximately 25% of total world exports. However, the sector is facing difficulty in accessing some consumer markets, such as those of Japan, the United States, and South Korea, which dominate 22% of world imports (USDA, 2015). The opportunity to explore the market in these countries, from a production base located in the Brazilian territory, faces problems of a health, environmental, and social nature, which end up turning into trade restrictions, notably in the case of beef and pork.

Thus, since the second half of the 2000s, Brazilian companies have been given a more active role in the process of internationalization of the productive and economic activities related to the international meat market. Internationalization refers both to the attitudes of one firm related to outside activities, such as carrying

out operations abroad. This is because attitudes constitute the basis for the decisions to international investments and the experience gained from these investments, are influenced by the attitudes of the firm (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1990).

In a contemporary context, internationalization can be understood as the process of designing a strategic plan, as well as its deployment, in order for a corporation to start operating in other countries, either producing or just selling, aiming at building a competitive advantage (ALMEIDA, 2007). A strategy found by Brazilian companies to gain access to the major markets of the world has been the acquisition of companies (processing industries and distributors) in producers' countries that do not face resistance to their exports (Uruguay, Argentina, Australia) and major consumer markets (the United States and Europe).

In this context, this article has the main objective of analyzing the internationalization process of Brazilian companies that operate in the animal protein sector (beef, pork, and poultry) from the year 2000 and the role of the Brazilian Development Bank (BNDES) in this process. The importance of BNDES is a consequence of the policy adopted by the Brazilian government to "create sector champions" as well as its intervention in the economic crisis process that affected some of the largest economies in the world starting from 2007, resulting in reduced trading volume in circulation in the economy.

To meet the proposed objective, the article has been structured into five sections. After this introduction, the second section highlights the literature review. In the third section, an research approach. In the fourth section, in an analytic manner, the strategies of internationalization of Brazilian companies will be discussed. Some final considerations will be pointed out in the fourth section.

## **2. The internationalization process of the companies**

With the opening of the markets and the technological advances in the main countries since the 1990s, a new competitive scenario has become a determinant factor in to strategy the companies. The businesses became global, and the companies, under pressure from the globalization effect and the increase in international competitiveness, needed to rethink their strategic directives to maintain the internal market and expand their business in the international market. In the Brazilian case, transformations that started in the 1980s and 1990s, such as the reduction in the restrictions to the international trade, the privatization program, financial liberalization, and the deregulation of the markets, made the country's economy more attractive to international investors. In addition, it exposed the companies installed in the country to the international competition, thus forcing them to modify themselves in order to increase their competitiveness.

This competitiveness then turned into a matter of survival for the companies because, without it, their internal markets, until then protected, could be absorbed by foreign competitors, who are usually better prepared to meet the market demands. By becoming more competitive, these companies could then seek to enter in new markets (foreign country), spreading their products and also contributing to the economic development in their country of origin (Cuervo-Cazurra, 2008; Fleury et al., 2010; Parente et al., 2013).

The internationalization strategy is referred to as the economic expansion movement by the involvement of the companies in activities beyond their country of

origin, aiming for the construction of a competitive advantage focused on the increase of the geographical scope of their activities (productive or commercial). This approach, constructed from economic theory, considers the endowment of production factors – mainly the workforce and natural resources – the determinant element for the commercial exchanges between countries.

Over the centuries, the assimilation of new elements, such as the scale economies, scope economies, demand factors, product distinction, technology, and knowledge, started to better explain the internationalization process. The economical focus was then expanded from the international commerce explanations previously mentioned to the comprehension of the multinationals and transnationals with the local environment, involving also cultural, institutional, and other dimensions (Cyrino et al., 2010; Cuervo-Cazurra and Narula, 2015).

Over the 20th century, Edith Penrose contributed with the internationalization concept by means of the development of the firm growth theory. To the author, companies strongly tend to expand themselves, and expansion means the diversification of production as well as penetration into new external and internal markets (Gonçalves, 2002; Taylor and Thrift, 2013).

According to Porter (1998), there are many differences between competing in the international market and the internal market, and these differences must be considered in the development of an international competitive strategy. These differences are mainly related to the cost factor, the unique characteristics of the external markets, where other countries' governments stand, the available resources, and the company's capacity on overseeing foreign competitors.

In the case of development countries' companies, the foreign direct investment (FDI), especially toward developed countries, is used as a trampoline to obtain strategic assets (technology, knowhow, and global trademarks), in the competition against global rivals and to avoid the market and institutional limitations (Luo and Tung, 2007; Amighini et al., 2009; Di Minin et al., 2012). Besides, according to Chen et al., 2012 and Mathews (2006), as a result of globalization, companies located in peripheral countries seem to demonstrate a broader articulation from a global market overview, with the objective of exploring new business opportunities (e.g. expansion).

Hitt et al. (2008) discuss that the main reason to execute these internationalization strategies is the potential that the international markets have to create new opportunities, such as a demand for a particular product that can be dealt with by local operations. These opportunities bring benefits to the producers, which can be the following: minimization of the access barriers toward desired or already captive markets; adjustment to the legislation of the local market; availability of international financing sources; reactions to the behavior of the competition; strengthening of the financial base, enabling new investments and technological developments; gaining access to the network of suppliers; being close to the consumer in order to adjust a product specification, enhance the supply chain, or provide technical assistance services; gain locational advantages (access to inputs or the proximity to consumer markets); beat the restrictions in the demands of the internal market provoked by the fall in consumption (or limit in growth) and by the increase in competition (many times by the entrance of international products or companies); access to third-party markets, seeking to strengthen a competitive position and geographic diversification; and an increase in specialization (Hitt et al., 2008; Jain et al., 2013; Cuervo-Cazurra et al., 2015; Hernández and Jesús Nieto, 2016).

Among the alternatives of penetration in the external market, Mathews (2006) suggests that joint ventures and partnerships represent the most adequate form to strengthen international competitiveness. However, according to Amighini et al. (2009) and Fleury and Fleury (2013) the acquisition of companies by means of FDI has prevailed among the actions of the multinational companies in developing countries or emergent economies.

The FDI is accomplished when the companies invest or acquire companies or other assets (plants) outside their country of origin, being capable of effectively intervening in the management of the target company (IMF and OECD, 2000; Benito, 2015). The acquisitions are responsible for allowing fast access to a new market and providing the buying companies with a faster and bigger international expansion, compared to the other strategies. In 1990, the amount of Brazilian FDI was only US \$41 billion, and in 2012, this value had already reached US \$316 billion, a growth higher than 400% in the period (UNCTAD, 2015), showing that for the FDI, the growth in volume managed by the Brazilian companies is significant.

One of the reasons for the increase in FDI is that the company could change their internationalization strategies according to the degree of control, knowledge and experience acquired throughout the years.

### **3. Financing for the internationalization process**

Long-term investments in sectors that require a large volume of investments in the expansion of their productive capacity by means of mergers and acquisitions, the construction of industrial plants, and the development of new distribution channels, especially in the other countries, became more difficult and expensive to be executed exclusively with equity or by commercial and banking financing.

In addition, for Sant'Anna et al. (2009), the magnification of the productive capacity in countries, such as Brazil, whose credit and capital markets were weakly developed is essentially limited to the companies' auto financing, to the capacity of the government in making long-term funds available and to the expansion/contraction movements of the international liquidity ("a key determinant" in the external funding).

As a result, an increasingly common option as a financing strategy has been to go public in the stock market through the issuance of new common shares (initial public offering (IPO)). Access to financial resources arising from the IPO of the company is one of the ways to enable production at higher scales, gain access to wider markets, and, as a result, confer greater institutional visibility and increases the transparency to the organization itself (Brau and Fawcett, 2006; Certo et al., 2009; Celikyurt et al., 2010).

The use of the IPO as a source of funding has the advantage of increasing the fundraising base, which allows for the company to attract investments. Those investments could then be used to finance projects; encourage expansion, change of scale, and diversification of business; or even restructure financial liabilities.

Beginning in the mid-1990s, with the acceleration of the opening of the Brazilian economy, some Brazilian companies began to reach foreign markets by listing their shares on stock exchanges in order to capitalize financially by launching securities on the market. However, the crisis in liquidity and the confidence crisis in the international market, which started in 2007, have made economic agents opt for liquidity, rather than renewing their loans. This has led banks and other financial

companies to experience financial difficulty and, in some more severe cases, even to declare bankruptcy (Bresser-Pereira, 2009; Freitas, 2009).

Among the consequences of the crisis was a sharp reduction in the offer of credit to productive activities due to the loss of foreign credit lines. With the difficulties faced by financial institutions, many companies (especially from emerging markets) had difficulties in obtaining credit lines to make investments in production (construction or acquisition of other companies). In the Brazilian case, the main difficulty resided in the fact that the national private financial system was not being sufficiently developed to provide long-term funding. Development banks were crucial to the maintenance of the granting of credit for productive activities, conducting a countercyclical movement (Lazzarini, et al., 2011; Culpeper, 2012; Afonso, 2012).

The development banks, according to Lazzarini et al. (2011) and Culpeper (2012) are characterized by being oriented toward the correction of market flaws by means of the financing of projects with long maturation periods. In the Brazilian case, BNDES constituted an important development institution, filling the gap left by the private sector in relation to the provision of credit lines for long-term investments and assuming the role of principal fosterer of the internationalizing companies<sup>1</sup>.

The BNDES performance in lending and/or capitalizing on the companies' operations, particularly to enable mergers and acquisitions (M&A), points to more active internationalization strategies of Brazilian companies (Hiratuka e Sarti, 2010). The interest in transforming Brazil into a major global player led the federal government to favor businesses called "sector champions" i.e., large groups of private national capital that could become competitive in the world. In 2004, the Brazilian government promulgated the Policy of Productive Development, with the purpose of developing specific sectors of the Brazilian economy. One of the chosen sectors was the meat sector, as Brazil was targeted to become the world leader in meat exports. With the support of the Brazilian government and financing from the BNDES, there were major consolidations in the meat sector engineered by some key players.

Aiming to fulfill this goal, the State became a motivator and an organizer of mergers and acquisitions involving some of the largest domestic companies. In this scenario, BNDES acted by means of the transfer of public resources through subsidized credits to large corporate groups and companies that were preferably in commodity sectors (Tarantin Junior and Valle, 2015).

According to Alem and Cavalcanti (2005), BNDES's role should be recognized when establishing the relationship between national development and the internationalization of companies since, in a globalized economy, the competitiveness of firms becomes important for the performance of the country as a whole leading to, i.e., "spillover back," where companies that invest abroad bring along other service companies.

According to Sant'Anna et al. (2009), in addition to being a long-term resource provider, BNDES plays an important countercyclical role as an agent in the credit market, increasing its share in times of downturn or reducing it in times of expansion. In this sense, the volatility and risks linked to interest rates, the exchange rate, liquidity, and credit confidence tend to accentuate the market insecurity in

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<sup>1</sup> Created by the Law nº 1,628, from June 20, 1952, BNDES is a federal public company with legal personality under private law and its own patrimony, linked to the Ministry of Development, Industry and Foreign Trade. Its objective is to be the agency of the formulation and execution of the national economic development policy from the federal government by supporting programs, projects, services, and works with such purpose (BRAZIL, 1952).

scenarios of macroeconomic instability, promoting the contraction of economic agents while considering their risk aversion.

#### **4. Research approach**

The article was developed using a qualitative methodological approach by adhering to procedures of a bibliographical and documental survey, as the data published in annual reports (2007-2013) from companies from the animal protein sector, listed in BM&FBOVESPA as well as data from the annual reports from BNDES were analyzed.

The documental analysis is an efficient option for the analysis of the companies' data, as it consists of a form of data gathering restricted to documents, which enables the researcher to obtain knowledge of the company's past; allows the investigation of social and cultural changes; and provides access to information that could not, or would be very difficult to, be obtained if were dependent on interviews (Bardin, 1991; Fitzgerald, 2012).

The management reports illustrate the social businesses and the main administrative events that occurred in the company during the financial year, the investments in other companies, and the policy of profit reinvestment; thus, it is an instrument used by the listed companies to show the strategies implemented during the social year (Colauto and Beuren, 2006).

#### **5. Results and Discussion**

##### **5.1 Internationalization actions of Brazilian animal protein companies and the participation of BNDES**

Due to the necessity of the production scale and low production costs, the economy sectors defined by the production of commodities, which is the case in the animal protein sector, have, as their main characteristic, the existence of a small group, normally of big companies, with global presence and that concentrates the larger part of the production and commercialization (offer) of the product. The market concentration on these sectors is a consequence of their own production and commercialization dynamic, demanding large production scales and low prices in order for the companies to be competitive and have conditions of negotiating with the buying companies (normally retail chains with also a monopolist characteristic).

In the case of the animal protein sectors, the existence of great worldwide players (some of which are Brazilians) has not yet transformed the world's meat sector offer (specifically, the industrial sector) into an oligopoly. Since the 2000s, it has been possible to observe a growing process of internationalization of this sector by means of its acquisition and/or constitution of joint ventures of animal protein companies in the most different markets, especially by Brazilian (JBS S.A., Marfrig Global Foods S.A.(MARFRIG)) and North-American (Tyson and Cargill) companies. This movement of internationalization of Brazilian and North American and, more

recently, Chinese companies, is new in the industry<sup>2</sup>, as in the last decades, it has been possible to observe the local performance of the world's leading companies.

The existence of large multinational groups, such as the Brazilian JBS S.A and the Americans Tyson and Cargill, with operations in several countries, does not allow for the inference that the animal protein industry is moving toward an oligopolistic drawing.

In the poultry market, Brazil and the United States are responsible for over 65% of the world's exportation. However, the Brazilian companies only entered in the North American market – through their internal operations – in 2009, and the North American companies' performance in the Brazilian market was restricted to Cargill until the middle of 2008 when Tyson entered into the Brazilian market<sup>3</sup>. This shows that the performance of the companies is still concentrated on operations from their home countries.

In the case of the Brazilian companies that have their origins in the poultry and pork markets, the only ones that performed outside of the country were Sadia and Perdigão, even if in an incipient manner. In 2007, Sadia built its first foreign industrial plant in Kaliningrad (Russia) for meat processing. In Perdigão's case, its entrance into the European market occurred with the acquisition of Plusfood (in 2008), which operates 3 units of meat processing that are spread across the United Kingdom, Holland, and Romania (BRF, 2008). With the fusion process between the two companies in 2009, the group's international operations have been reworked into a new plan, including the expansion of that process.

In the bovine market case, it was possible to observe a local performance of the main global companies until late 2006. With the exception of Swift (USA), which possessed industrial plants in Australia and Argentina, what was observed were companies exporting to multiple markets, uniquely from their home country. Besides Swift, the North American market is also dominated by Tyson and Cargill (Excel). The three companies, together, were responsible for 72% of the North American production in 2012 (Tyson, 2013)<sup>4</sup>. In 2007, the Brazilian company JBS Friboi acquired Swift, and in 2008, Smithfield transformed itself into one of the country's biggest bovine meat processors, with approximately 23% of the market<sup>5</sup>.

Despite the adoption of these expansion initiatives by the companies since 2006, it is not yet possible to claim that the meat market is concentrated. The near-absence of the biggest companies in the large consuming markets of Asia and the Middle East and, with only few exceptions, of the incipient acquisition of companies in the production markets (Brazil, Argentina, Australia) are features of a market that still possesses some of the competitive characteristics. Among the 10 biggest animal protein companies in the world that possess public financial information, 3 are Brazilian (JBS S.A, BRF, and Marfrig), 3 are North American (Tyson, Hormel and Seaboard), 2 are Asiatic (Nippon Meat and WH Group<sup>6</sup>), and 2 are European (Vision

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<sup>2</sup> This is not the first process of internationalization seen in the industry. In the 1920s, for example, foreign capital companies controlled the Brazilian market (the North-American Armour & Co., Swift & Co., Wilson & Co., and the British Anglo).

<sup>3</sup> Cargill left the Brazilian meat market in 2009 when it sold its Seara operations to Marfrig and Tyson in 2014 when it sold operations to JBS.

<sup>4</sup> Tyson (26%), Cargill (23%), JBS USA (23%), National Beef (13%).

<sup>5</sup> On this occasion, the Brazilian JBS acquired only the Smithfield Beef Group, leaving Smithfield Foods with the operations in the U.S. swine meat market, plus subsidiaries in third markets. In 2013, the Chinese Shuanghui acquired Smithfield Foods.

<sup>6</sup> Former Chinese Shuanghui, owner of US Smithfield Foods

and Danish Crown) (Nippon Meat Group, 2015). Large companies such as the North-American Cargill were not considered, as they do not publish financial information.

The strong Brazilian presence in the international market by means of the exportations and the companies' ownership – apart from meeting almost all of the Brazilian market – allows the Brazilian meat sector companies to be placed in a highly competitive position toward the other international players that also perform in this sector. This is because such acquisitions or partnerships bring benefits, such as better understanding of the consumer market and the seeking of an alternative to serve markets that cannot be fueled by exports made directly from Brazil.

Table 01 shows the number of operations carried out by Brazilian companies beginning in the year 2005. There were included mergers, acquisitions, joint ventures, and Greenfield operations carried out by companies in the sectors of meat (bovine, swine, bird, sheep) and leather. As shown in Table 01, since 2005, Brazilian companies have carried out 65 intervention operations in the international market. Further, Table 01 highlights the incursions in the South American (42%), European (18%), and North American (18%) markets. In the European market, the acquisitions were concentrated in the 2005–2008 period, while in the North American market, those transactions increased after 2009.

The option for the acquisition of companies in the South American market, in addition to geographical proximity, is a result of its competitive advantages in the production and export of beef. By summing the Brazilian exports, just the exports of beef held from Uruguay, Paraguay, and Argentina account for 31% of world exports (USDA, 2015). In addition, the three countries have superior health conditions compared with the Brazilian market, ensuring some of the following benefits to companies located in these countries: (i) access to inaccessible markets for Brazilian exports, such as the U.S. and Japan, which prohibit imports from countries that do not have status of free FMD without vaccination (the status of which is verified in Argentina and Uruguay); (ii) payment of higher prices, such as the Hilton Quota for the European market; and (iii) marketing channels already established with other countries not accessed by the Brazilian production.



Table 01 - Internationalization actions of Brazilian companies - 2005-2015

Company	South America		North and Central America		Europe		Middle East		Asia		Oceania	
	2005/08	2009/15	2005/08	2009/15	2005/08	2009/15	2005/08	2009/15	2005/08	2009/15	2005/08	2009/15
<b>JBS<sup>1</sup></b>	5	-	4	7	1	3	-	-	-	-	1	3
<b>Marfrig</b>	12	1	-	1	2	1	-	-	-	2	-	-
<b>BRF<sup>2,3</sup></b>	-	2	-	-	2	2	-	5	-	3	-	-
<b>Minerva</b>	1	4	-	-	-	-	-	-	-	-	-	-
<b>Independência<sup>4</sup></b>	1	-	-	-	-	-	-	-	-	-	-	-
<b>Bertin<sup>5</sup></b>	1	-	-	-	1	-	-	-	-	-	-	-

<sup>1</sup> Acquisition in 2015 of the Moy Park operations (Europe), owned by Brazilian company Marfrig.

<sup>2</sup> Some operations are related to actions taken by Sadia or Perdigão before the merger.

<sup>3</sup> Not included the Units received from Marfrig arising from the exchange of assets held in 2011.

<sup>4</sup> Requested bankruptcy protection in 2009 and was acquired in 2012 by JBS S.A.

<sup>5</sup> Fusion with JBS S.A in 2009.

Source: elaborated by the authors from annual reports and presentations provided by companies in their virtual environments.

This shows that the first option of Brazilian companies has been the consolidation of industrial functions (slaughtering and meat processing) when purchasing refrigeration companies that perform the same operations, albeit in countries with less restricted access to key international markets. Acquisitions of companies in South America supports the concept by Johanson and Vahlne (2006), particularly regarding business being conducted initially in markets physically closer to the home country of the investor. As experience is gained with international activities, the company is exposed to more diverse markets. From the cultural point of view, this increases and enhances the formation of deeper and more long-term relationships, which establishes a basis for more intensive commitments of resources.

Among the main Brazilian companies, the one that best fits this profile is Minerva Foods (Minerva). Since 2008, the company has acquired 5 beef processing plants, all of which are located in South American countries (2 in Paraguay, 2 in Uruguay and 1 in Colombia).

In the case of operations in the European market as well as in the U.S., Middle East and Asia, the acquisitions were aimed at approaching the companies in the consumer market (food service or final consumer). In this case, in addition to processing companies, the acquisitions involved food retailers and also companies with well-known brands in the market.

Good examples were the acquisitions of English CDB Meats by Marfrig in 2008 and the Belgian Toledo by JBS S.A in 2010, which have a strong presence in the European market. Likewise, the acquisition of American Keystone Foods by Marfrig in 2010 allowed the Brazilian company to become a leading supplier of the food service market in the world, serving major fast food chains such as McDonald's, Subway, and Yum Brands. With those acquisitions, companies will accelerate the process of approximating with the consumer, acquiring brands already known to the public, while, through these companies, simultaneously opening space for imports of products processed in the domestic country. This is possible in markets where there is no sort of restriction on imports of Brazilian beef. For markets with restrictions, access is being done through the purchase of factories in countries where there are no significant restrictions (Australia, Uruguay, the United States).

The acquisitions of companies located in other countries or even the construction of industrial plants in these countries ensures and expands markets for goods and services from these companies. In addition, they strengthen their competitiveness by achieving economies of scale, an effect of the specialization of learning, and by providing a greater financial base for reinvestment and technological development. In addition to the companies, the country also gains from these investments, either by strengthening local businesses and the brand "made in Brazil" abroad or by increased profit remittances to the country.

Beginning in 2009, Brazilian firms also turned to Asia, the Middle East, Oceania, and the North American continent. The step of exporting to these new markets from third countries is superseded, and it is necessary to get closer to the consumer market. Examples of this process are the acquisition our JV by BRF in 2014 and 2015 (AKF, Golden Foods Siam, QNIE and SFI), which operates in the distribution of frozen food in the Middle East, and the joint ventures established by Marfrig in 2011 in China (Chinwhiz, which specializes in the production of birds, and COFGO, which focuses on the operations of logistics and food distribution).

This change can be explained by some variables, in particular the following: (i) unlike Europe and North America, the countries of the three regions were only slightly affected by the financial crisis, especially with regard to domestic

consumption and power consumption; (ii) the countries of the Middle East and Asia (notably China) have potential consumption that has attracted companies from various sectors of the economy; and (iii) the assets that are of greatest interest and available in Europe and South America were acquired in the first stage of internationalization of Brazilian companies (2003–2008).

Despite recognizing the importance of the Asian and Middle Eastern markets, it was in the North American market that Brazilian companies made the largest purchases of this recent internationalization process. While Marfrig invested \$1.2 billion in the acquisition of the food distributor Keystone Foods and, thus, secured access to the main consumer markets in the world, JBS S.A invested over US \$5 billion in the assumed debt and acquisitions of North American companies between 2007 and 2014.

Despite the focus on the end consumer, the processes of acquisitions, joint ventures, and Greenfield projects conducted by Brazilian companies were not restricted to industrial meat processing or distribution. As Table 02 illustrates, the acquisitions involved companies operating in almost all links of the production chain of animal protein as well as “related” productive chains.

**Table 02 - Diversification of the acquisition transactions of the Brazilian companies**

	JBS	Marfrig	BRF	Minerva
Feedlots	X			
Processing facilities	X	X	X	X
Distribution	X	X	X	
Dairy Products			X	
Tannery	X	X		

Obs. In the case of feedlots and tannery, it is specific chain of bovine.

Source: elaborated by the authors from information from the annual reports provided by the companies.

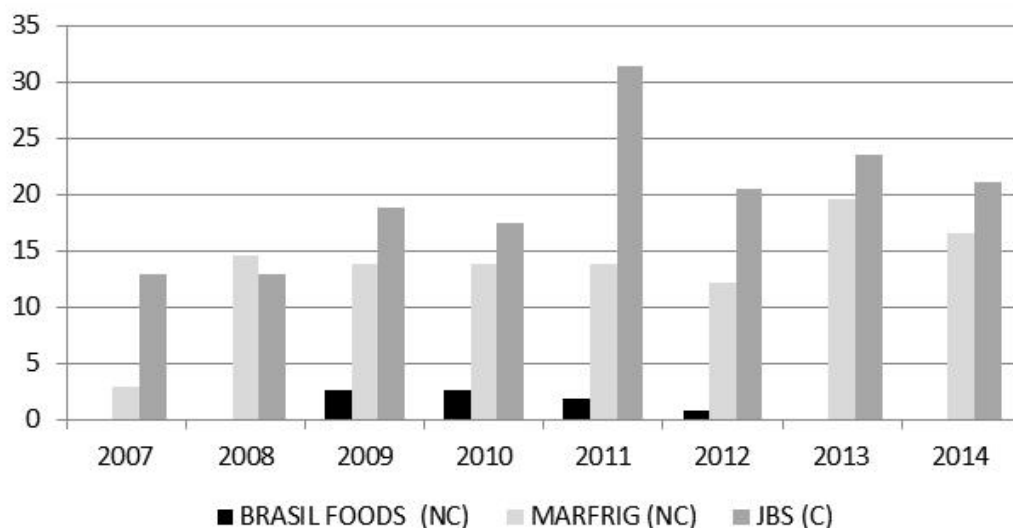
The Brazilian companies took advantage of a group of favorable factors to perform actions that were considered essential to their strategies of internationalization and productive diversification. With the exception of Minerva, which chose to keep a focus on the animal protein industry (specifically beef), other Brazilian companies have become major global food companies. JBS S.A and BRF have investments in the Brazilian market in sectors such as pasta, milk, and derivatives of vegetable protein.

The lack of funds in the international financial system reached in a similar way all companies that needed resources to finance their production strategies. Brazilian companies have BNDES as a source of financing at attractive interest rates when compared to the international financial system, with a firm purpose of creating “champion companies” to act globally. The BNDES Bank was responsible for many of the loans taken by these companies in their internationalization actions.

The BNDES’s participation in financing the expansion of Brazilian companies is directly linked to the IPO process carried out by the companies. With the exception of the companies that formed the BRF (Perdigão went public in 1978, and Sadia did its IPO in 1971), the other three companies made their entrance into the stock market in 2007 (JBS S.A in March, Marfrig in June, and Minerva in July).

BNDES had a fundamental role in the capitalization of JBS S.A and Marfrig, having acquired an initial stake of 12.9% and 4.0%, respectively. Currently, the participation of the bank in these companies is at 25.01%<sup>7</sup> and 19.6%, respectively. In the BRF case, the participation of the bank was always small, such that in 2013, the bank completely withdrew itself from the company<sup>8</sup> (BNDES, 2008; 2014). Minerva is the only one of the large animal protein companies that does not possess BNDES as a partner, which Figure 01 demonstrates.

Figure 01 - Participation of BNDES Bank in the Brazilian animal protein companies' equity



Source: BNDES (2008 to 2013)

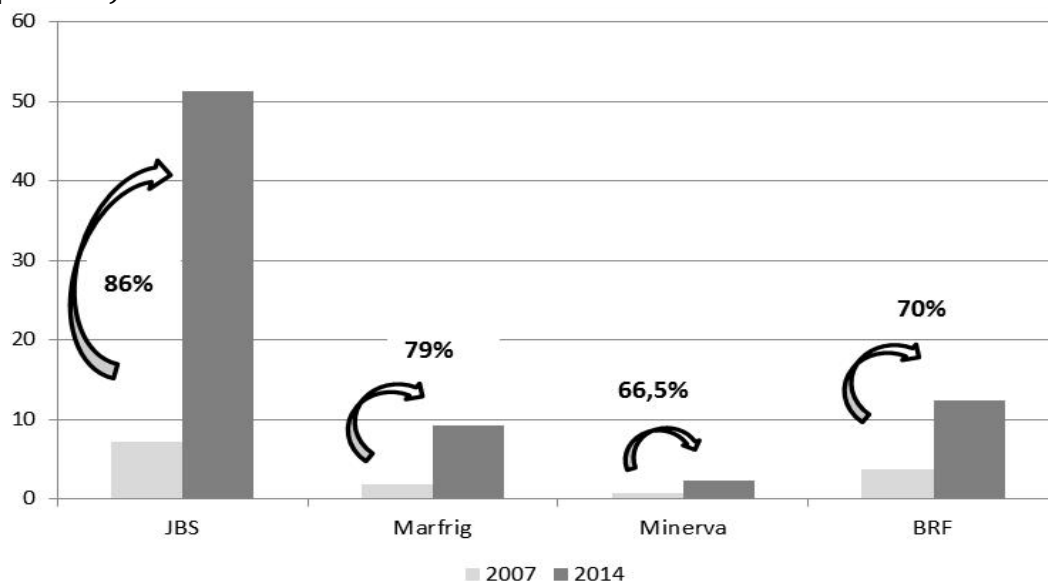
Besides these companies, BNDES, within the creation of the “national champions” strategy, also had significant participation in Frigorífico Independência—21.8% of the capital of the holding company—through an investment of BR \$250 million made in 2008. The company filed for bankruptcy protection in 2009 (three months after the investment from BNDES) and had its assets acquired in 2013 by JBS S.A. The Bank also had significant participation in Bertin Alimentos SA (26.92%) until 2009, when JBS S.A acquired the company.

The growth of the two companies (JBS S.A and Marfrig) from the IPO and the BNDES entry as a shareholder is noticeable when comparing the evolution of the net income of these companies in two distinct periods (2007, the year of the IPO, and 2014), as Figure 02 illustrates. Despite the difference in the values of the net revenue of the two companies, both had a growth higher than 75% in 7 years, a result obtained mainly by the companies' growth due to the acquisition transactions performed in the domestic and international markets.

<sup>7</sup> Apart from BNDES, Caixa Economica Federal (Brazil Bank controlled by the federal government) has 10.07% of the company shares

<sup>8</sup> Although there was no considerable participation of BNDES in BRF, the federal government has an indirect relationship with the company through the pension funds of the Banco do Brasil (Previ 12.2%) of Petrobras (Petros with 12.10%).

Figure 02 - Evolution of the Net Revenue of the Brazilian animal protein companies (US\$ billion)



Source: JBS S.A (2007; 2014), Marfrig (2007; 2014), Minerva (2007; 2014), BRF (2007; 2014).  
 Obs 1 In the BRF case, the 2007 values refer only to Perdigão.  
 Obs 2. Values in Brazilian Real, converted by the average U.S. Dollar quote in December of the reference year.

The IPO and the entry of BNDES as a partner of the companies accelerated the process of productive internationalization of JBS S.A and Marfrig and consequently the increase in net revenue from international operations. In 2007, 38% of the net revenue from JBS S.A came from operations from units located in Mercosul; in 2014, this percentage dropped to 21%, (JBS S.A, 2007; 2014).

In the case of Marfrig in 2007, Brazil was responsible for 75% of the net revenue of the company, whereas the other 25% came from operations in countries of Mercosul<sup>9</sup>. In 2014, only 20% of the revenue came from transactions in local currency (Real) (MARFRIG, 2007; 2014).

With access to the domestic credit and revenue influenced by domestic consumption, Brazilian companies were able to continue with the strategy of internationalization, despite the economic crisis affecting the country and, consequently, the North American and European companies.

## Final Considerations

Due to the difficulty of reversing the restricted access of Brazilian beef to some of the major consumer markets in the world, Brazilian companies have begun to change their growth strategies. In parallel to the increase in exports from the industrial plants located in Brazil, where production costs are among the lowest in the world, these companies have begun an intense process of internationalization by acquiring firms in export and consumer markets.

The option of building new plants and creating new brands would take time and would require investments, which would resonate on a larger period for expansions in the new markets. The purchase of industrial plants that have already

<sup>9</sup> The company does not publish separate data for Brazilian operations.

been installed does not increase (necessarily) the ability to supply of products on the market, allowing the maintenance of pricing strategies.

Access to the consumer market, especially the markets of Europe, North America, and Asia, occurred at first with the acquisition of assets in these markets or countries with easier access to consumer markets. The acquisition of companies that were already established in the market with a customer-recognized brand eliminates the steps in the process of internationalization of Brazilian companies.

The economic outlook has made many assets attractive for companies that have conditions to obtain financing from financial agents, either internal or external. The initiative taken by some of the leading Brazilian companies, such as JBS S.A and Marfrig, shows that there is interest in this type of operation. This strategy, initiated in 2005, made the Brazilian companies international benchmarks in the industry and owners of a significant portion of the industrial park of the world's leading exporters of meat, such as Argentina, Australia, Paraguay, Uruguay, and the United States. Also, the strategy resulted in a strong presence for the Brazilian companies in the North American and European consumer market, such as Italy and England.

The financial crisis, which began in several economies in 2008 and reflected the reduction in the availability of credit for investments, does not seem to have been a predominant factor in the reduction in the pace of internationalization of Brazilian companies. The lack of credit may have impacted the fundraising strategy of Brazilian companies, but the possibility of relying on BNDES funds countered the international restrictions.

The international market continues to be a natural path for these companies, especially in the markets of Asia, Oceania, and Middle East. Acquisition strategies occur with the rise of assets that allow greater penetration in these markets. At the moment, what is observed is the choice of joint ventures with companies already operating in the local market, especially China and the Middle East.

Specifically for the European market scenario, companies already acquired by Brazilian groups have been permitted to attend to the consumer market (food service companies, supermarkets, and the final consumer) in a competitive manner. New actions, through either acquisitions or Greenfield investments, will rather depend on developments in the financial crisis sweeping the continent and the availability of assets at attractive prices.

The consolidation of the Brazilian position in the international market will depend on the outcome of the internationalization strategies adopted by Brazilian companies associated with actions taken under the resolution of exports' barriers. The option to remove obstacles to gain direct access to the Brazilian market depends not only on internal actions but also on trade agreements that print severe restrictions.

Future studies could show whether the strategy to turn into a global food company, adopted mainly by JBS and BRF, became more advantageous than the specialization strategy adopted by the company Minerva.

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