The brazilian macro environment pestle analysis marketing essay

Investment climate is the economical, institutional, policy, and regulatory environment in which firms operate. A PESTL analysis is an analysis of the external macro-environment that affects all firms. P. E. S. T. L. is an acronym for the Political, Economic, Social, Technological and Legal factors of the external macro-environment. Such external factors usually are beyond the firm’s control and sometimes present themselves as threats.

Political environment

Brazil is currently a country with a stable, proactive government and there is virtually no political instability at the moment. However, things can easily change, as they did through out the modern history of Brazil. Political conditions can become volatile, and this threat remains from election to election. Business conditions that change rapidly and social extremes that exist don’t add to country’s attractiveness.

Corruption is still a big issue in Brazil. Opening an operation in Brazil may require additional payments to government officials, which can present a big obstacle to entering a market. According to Transparency International, Brazil holds 70th place in level of corruption among 180 countries, higher then such economies as Cuba, Turkey and Bulgaria.

Economic environment

Due to large population and inflow of FDI, Brazil has extremely high potential for growth. The gap between rich and poor is decreasing gradually, and there is a significant trend of growing middle class. Good news is that Central bank has inflation under control and the risk of domestic currency devaluation is low. Brazil’s currency, the real, was introduced in 1994, and is largely seen as a success. Currently, it is considered to be overvalued against the dollar, which hurts exports and helps imports.

Government is clear when it states that it has equal treatment for both foreign and domestic enterprises. There is abundance of unskilled and semi skilled workers, but labour costs on the global level are quite low. When it comes to import duties, there is a system in place which gradually reduces the tariff according to the number of years of successfully importing. Federal government doesn't offer any help, but local state governments have a right to offer incentives for investing, almost the same set of incentives as it does to domestic enterprises. Corporate tax is 15% and there are no clear incentives for leaving the profit in the country. The tax rate is quite high compared to some economies like Ireland, Portugal or Greece. Price Water Coopers, consultant agency, highly recommends that exporters seek assistance from local trade and tax consultants before shipping any goods.

Social environment

We can see that there is a huge economic inequality among the population and around 19% of citizens live under poverty line. But, let's not forget that Brazil has a population of around 188 million people, which makes it 5th largest nation in a world. Let's take a look at the income distribution table:

Year

2001

2002

2003

2004

2005

Richest 10%

47. 44%

47. 02%

46. 19%

46. 19%

45. 31%

Poorest 50%

12. 58%

12. 98%

13. 22%

13. 85%

14. 07%

Class distribution in Brazil has a huge portion of low (minimal) income people, and a significant number of wealthy citizens. However, middle class is showing growth, but is still to be established. This tells as that there is large consumer population (18 million) of quite rich individuals that could be successfully targeted with our product. Brazilian people are considered as modern and up-to date with fashion movements in the world. They are aware of luxury brands and are willing to buy expensive products.

South and southeast region are the most developed parts of the country and hold the best standard of living. These areas are the most-densely populated and account for the biggest portion of GDP per head. Southeast is the home to cities of Rio de Janeiro and Sao Paolo, where the largest part of population is located. (See Appendix B)

Legal environment

Unfortunately, Brazil is highly bureaucratic country. Opening any sort of business in Brazil involves large amounts of paperwork, there are still numerous regulations and it is a lengthy process. Brazil, represented by Sao Paulo as the largest business centre, ranks 119 out of 155 in ease of doing business. This is behind other major emerging markets. For example, South Africa ranks 29, Mexico 73, Russia 79, and India 116. In Latin America, only Venezuela and Haiti regulate business more heavily than Brazil.

Starting a business is easiest in the states of Minas Gerais and Rio Grande do Sul. It is most difficult in Sao Paulo, Ceara, and Maranhao. The time to start a business varies widely across states-from 19 days in Minas Gerais to 152 days in Sao Paulo. It takes 19 different steps to start a business in Ceara, and 18 in Maranhao and Santa Catarina.

Government is showing effort in providing help to investors by providing manuals and lists of necessary bureaucratic instruments needed to start a business in Brazil. These manuals are quite complicated but accompanied with details, often with described step-by-step process for obtaining necessary licences. Brazil has signed a bilateral agreement on avoiding double taxation with most countries, including Denmark.

There are specific laws regulating pricing models, where we need to take care, especially while eventually promoting sales. Also, every enterprise is required to pay extra (13th bonus) salary to its employees.

Political Forces

stable government

social unrest

High corruption among govern. officials

volatile political situations

history of instability

Economic Forces

stable inflation rate

stable currency

many unskilled workers

deregulation of markets

undervalued real (good for importers)

Sociological forces

huge population

growing middle class

big economic inequality

social unrest among the poor

Legal

opening to foreign investors

numerous regulations on starting a business

strong labour unions

high corruption

double – taxation agreements

II. The keys to success: a Marketing approach

Marketing Vision

The Marketing approach for Redgreen in Brazil will be based on the assumption that more and more Brazilians belonging to the higher society and occupying managerial positions in international firms and in administrations are looking forward to adopting a sophisticated style through clothes, which can be used in the working environment as well as for leisure times, while offering excellent quality and European design. Redgreen will then compete on the basis of the value offered to customers by their products, in terms of image, quality, etc. (see “ Product’s values” below), rather than on price.

Marketing Concept

Target

Given the price and the quality of Redgreen´s products, the distribution of wealth in Brazil (with only about 10% of the population who can afford buying our products) and the image the company wants to convey (see “ Product’s values” below), the selected target of consumers would be people with a high purchasing power (rather from the higher society or from the bourgeoisie, rather “ rich” or at least upper middle class). They will generally be well educated and open to European culture and looking for high quality and design clothes. Redgreen´s products are likely to attract primarily people from the European minority (Brazilians with European descent mainly). In terms of age structure, the target could be very large but with a main focus on 35 to 50 years old (could start from age 25 or so). To summarize, customers will certainly include:

Managers in international companies, business people, yuppies in Sao Paulo

Doctors, plastic surgeons

Diplomatic Corps and politicians in Brasilia

State workers in Ministers or administrations (with rather high positions)

Rich people spending vacation time in luxury resorts like Costa do Sauipe.

The choice in terms of mode of entry as well as the places where we advise the company to sell (Sao Paulo, Brasilia and Costa do Sauipe) perfectly reflect the target market which has been chosen. The targeted consumers will indeed go shopping in those places and will have the opportunity to buy Redgreen products from there.

A double product use

We have to make potential customers understand (cf. " communication" below) that Redgreen clothes can and should be used in a professional environment as well as for their leisure times: boating, golf, visit friends, attend cocktails, brunch or receptions…

Product's values

Why we believe Redgreen products can attract our target? What do we offer to customers?

Modernity

A new and exclusive brand

Security and excellent quality

Seriousness as well as casual/comfortable clothes

Fashionable, sophisticated design, Nordic style

A European touch

A perfect style: our clothes are to be described and will be perceived as “ stylish, elegant, tasteful, chic, elegant, posh, fancy, elaborate…”

Can be used in all circumstances (working and leisure times).

Communication

To help potential customers find Redgreen products and be aware of their existence, in order to convey a certain message and to build up a certain image to be associated with Redgreen products, communication should be made on three levels:

Launch a campaign of minor importance in a first step. The company should not make any big investment at first, no national campaign, no television campaign because we are still at a level where we are only testing the Brazilian market. A major communication campaign could come later on, after a few months, depending on the first reactions of Brazilian customers in terms of sales, etc. The “ first step” campaign will be made using posters showing photos of our models and a slogan reflecting the fact that Redgreen clothes are high quality, perfectly designed to be fancy and elegant, both in a professional environment and for leisure times (golf…). These posters will be viewed in the places where products are going to be sold. Some advertisement could be made in one or two fancy magazines (Business Week…).

Try to find an event which could be sponsored (especially a local golf tournament, a boating/sailing event, a local reception…).

Submit all vendors the marketing concept and ask them to communicate on the products – while selling and talking to clients – in accordance to this concept.

Product selection

We can export all the range of clothes but the differences will be made in terms of quantity. Obviously more quantities should be allocated for summer clothes and export less winter clothes. Summer clothes fit better with the local climate, environment and consumer style. Still there are people who need warm clothes in Brazil and Redgreen can provide them with excellent jackets for their travels (we can notice that there are cold regions at times in the Southern parts of Brazil). Many different colours will be exported because Brazilians are likely to dare buying colourful clothes. The selection of products for export to Brazil may be modified in accordance with the reaction of customers on site.

Products to export in more quantities:

V-neck knits women/men

Cardigans men

Blazers men

Shirts men

¾ sleeves women

Polos women/men

Long sleeves rugby men

Modern sweets women

¾ trousers women

Shorts women/men

Skirts women

Dresses women

Shirts women.

Products to export in minor quantities:

Functional jackets women/men

Waistcoats men

Quilted jackets women

Trench coats women.

III. A strategic distribution choice

To choose an adapted distribution strategy, the use of Porter competition advantage, (Porter, 1986, p24) leads R-G to focus on a narrow target and more especially a niche strategy. Our choice is not to compete on price (cost reductions) neither on differentiation for a large target given that the majority of Brazilian can't afford expensive product.

In the strategy of the company, a key element is the choice of investment (direct or indirect). 3 options will be presented to weight pros and cons from 6 alternatives presented in the text book quoted in the text book: Licensing, franchising, management contracts, Turnkey operations, joint ventures and equity alliances.

Franchising

According to a comparative study (Franchising, joint venture and Corner) present in appendix C the choice of Redgreen for its business in Brazil is to set up a franchise. “ Franchising is a specialized form of licensing in which the franchisor not only sells an independent franchisee the use of the intangible property essential to the franchisee’s business but also operationally assists the business on a continuing basis, such as through sales promotion and training” (Text book). Then, in exchange, the licensee should pay annual fees plus a percentage of his gross profits.

For Red Green, the main advantage is speed to start a new business. It is much faster than to set up a joint venture and not much longer than to have a corner. The brand already exist, retailing activity can be launch in a short period of time in any continent. The risk is low thanks to the limited investment; it is even cheaper than Joint venture. However, earning can be not negligible in case of success in a country such as Brazil. The last advantage is the possibility to check how is going the business by making an audit. Nowadays, 119 brands are franchised like Levis, Wranger or Lee. It means that it is a well established way to export.

As a drawback, costs of national advertisement in Brazil should be paid by Redgreen like other support services to the franchisee. With a corner it wouldn't be the case but with a joint venture, it would be even more (national and local advertisement) In addition, training of franchises should be done that imply costs and involvement. It is more costly than with a corner but always cheaper than if Redgreen set up a joint venture (fixed cost + salary)

According to pros and cons analysis, by chosing to open a franchise, Redgreen can focus on the 2 main cities in Brazil: Brazilia and Sao Paulo, where the main portion of the wealth is concentrated. It is also possible to open up a shop in the tourist area Costa do Sauípe (near Bahia) to target a resort chosen by many local and foreigners as a holiday place.

IV. Expansion opportunities

Now, the market analysis should underline opportunities in term of expansion on the clothes market in Brazil. As a first statement, key figures can give an overall idea of the situation. Almost 50% come from China, 10% from Hong Kong, 6% from India and 5% from Italy. It means that 4 countries are on this oligopoly market with 71% of the market. It also means that this Danish brand will not penetrate easily the market. However the importation trend is expending (based on a study from 2003 until 2005)

The competition in the clothing market will be based on the sample of Sao Paulo because of the existence of primary data on this area. This city is one of the rare city to have a high standing area so called " gold triangle", ranked 9th most luxurious avenue in the world, where the most famous and luxury fashion goods are sold.

On the Brazilian market, since 1995 and the decrease of tariff barriers, many famous brands have created networks to have a strong effect on the market. Instead of quoting all these brands, most important will be positioned on the perceptual card according to the price of clothes and age of consumer (also link to the design and fashion). All this brands focus on rich people who can afford international famous brands.

5 Forces of Porter can be used to give an overall idea of the situation. At first sight, it is possible that competition is hard because of many famous and well established brands (see the conceptual card). However, direct rivalry is linked to the concentration. The less the concentration is important (many competitors like in Fashion industry in Brazil), the better it is to compete. The growth of the market and its dynamism is real and allow Redgreen to get some market share easily. Because of the statement: “ the lower is the growth rate, the more competition is a question of life among competitors”. Then, the possibility to have a differentiation strategy can pay off and limit the effect of competition. Given that there are almost no exit barrier, in case of a low growth rate, competitor will just leave the market and not compete until death.

In term of new competitors entering the market, the activity’s growth can attract new competitors and new brands to come in this market. The inexistence of entry barriers on investment and R&D confirms the absence of risk. Substitutes products don’t represent risks; negotiation power of customer is also marginal. The bargaining power of suppliers is not linked to Brazil expansion and the research will not cover this part.

“ The Porter 5 forces”

V. Specific Operational Aspects

In order to be a successful exporter to Brazil, a certain number of essential disposals are to be taken. Registration at the “ Registro de Exportadores e Importadores” (Ministry of Trade). As an importing company, we or our legal representative have to fill up the “ Declaration of Importation” which has to be presented to the “ Receita Federal”. Custom clearance is eligible . for every type of merchandise; clothing products are subject to a 20% custom clearance. These products are also eligible to Taxes on Merchandise traffic, which is 18% in the state of Sao Paulo. The best way to transport our merchandise is the maritime freight to Brazil.

It has been soundly advised, to avoid discriminatory practices and “ surprise” taxes on custom clearance or importation licences, to hire a middleman called “ despachante aduaneiro” who will take care of the legal aspect. Their cost widely covers time and energy used to carry out all the steps by our company.

Conclusion

As a conclusion, Brazil as an emerging economy presents a great opportunity for Red Green to expand its operations and gain significant market share. Its vast population of rich individuals and growing middle class present a perfect target market for our products. Our main competitors haven’t fully established their operations and demand for our type of product is growing. This is a great opportunity, and we shouldn't miss out on it.

As an entry model, the decision has been made to implement franchising model, in order to limit the risk and share it with our partners in Brazil.

The current strategy is now defined but in the future, it is possible to open a Redgreen shop or to have a clothes manufacturing operation in Brazil. So, vertical integration could add value and increase profit. This extension could be done if the business is well established and forecasts of sales are promising increase in profits.