

# Dell in brazil

Countries



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1. Why did Dell decide to invest in Brazil? Dell decided to invest in Brazil because of its strategy to expand internationally. Dell had operations in many countries but did not have any manufacturing plants in Latin America, which was the fastest growing market for computers. Brazil was the ideal place for its manufacturing plant in Latin America because it presented a huge potential market for Dell since it was Latin America's largest country with over 170 million people. Dell felt that the only way to dominate and become effective in the Brazilian market was to have its own manufacturing plant in Brazil.

In addition, Brazil contained high import tariffs which would cut away at Dell's profits if it had to export products from the U. S. into Brazil. Also attractive was Brazil's membership in Mercosul. This would be beneficial for Dell because any company producing 60% of a product in a Mercosul country would be exempt from all tariffs when exporting to other countries associated with Mercosul. These countries associated with Mercosul included Argentina, Uruguay, Paraguay, Chile, Bolivia, and Brazil. Therefore, Dell would have an advantage when exporting its products from Brazil to any of these other Mercosul countries. . What were the pros and cons of the five short-listed states for Dell's investment in Brazil? Why did Dell select to invest in the state of Rio Grande do Sul? The 5 short listed states for Dell's investment in Brazil included Sao Paulo, Rio de Janeiro, Parana, Rio Grande do Sul, and Minas Gerais. Some of the pros that were common in all of these states were adequate levels of education, a sufficient pool of qualified labor, a steady supply of electricity, and sufficient telecommunications and transportation infrastructure.

Beginning with the pros for Sao Paulo, this state contained the largest market for personal computers in Brazil due to its large population. It also had a huge supply of skilled labor. Sao Paulo presented two attractive locations for the plant in the cities of Sao Jose dos Campos and Campinas. The cons for Sao Paulo included the mannerisms of the state government officials who seemed indifferent to Dell's specific needs and concerns. Sao Paulo's investment promotion agency did not seem catering to Dell's selection team since the state did not have any problems attracting foreign investment.

In addition, Sao Paulo did not offer Dell any special financial incentives to attract their investment. Next, Rio de Janeiro had several pros common to all 5 states as previously mentioned. However, the state offered Dell very few financial incentives with the intention of receiving a counter offer from Dell. Dell responded negatively to this initial low offering of incentives and did not return to renegotiate. Parana also contained the same pros that were common among the 5 states. On the other hand, the main negative of the state included the amount of financial incentives that the government was offering.

These financial incentives did not compare to the financial incentives that other states such as Rio Grande do Sul offered. In addition, the state and its promotional agency did not seem determined to attract Dell's investment. Dell was given a general presentation that did not address the company specifically. Aside from the common pros listed above, Minas Gerais greatest advantage was its investment promotion agency INDI. The agency was very

qualified and catering to Dell's concerns. The INDI even set up meetings for Dell's selection team to meet state government officials.

The state also offered favorable financial incentives that included a 70% reduction in ICMS tax for 10 years and a loan of R\$20 million to be paid back in a 4 year period with a 4 year grace period. The state also offered free land for the plant to be built on. However, the cons of Minas Gerais centered around the region being highly industrialized. The Dell selection team felt that the state was a " heavy-industry, rust-belt, region. " Because of this, Dell felt that the government would not be able to satisfy Dell's specific needs as a high-technology company.

The last state was Rio Grande Do Sul, which was most attractive to Dell. The biggest plus of this state was its independent, non-profit investment promotion agency, Polo. Polo was very helpful in addressing Dell's concerns and even went to Dell's office in Texas to give a presentation. The Polo was eager to seek high technology investment and was determined to attract Dell's investment. For other pros, Rio Grande do Sul had an adequate infrastructure and had one of the most efficient telecommunications infrastructures in the country.

This would create huge cost savings for the plant. The state also posed few security concerns as its roads were much safer than roads in other states such as Sao Paulo. Rio Grande Do Sul's capital, Porto Alegre, was the ideal location of the plant. This city specifically made Dell feel at ease since the crime rate was very low. Other pros included existence of many established universities, a huge pool of skilled labor, and a high standard of living among the population.

Most of all, the government offered Dell the most favorable incentives out of the 5 states. It offered a 75% reduction in ICMS tax for 12 years, and R\$20 million loan with a 5 year grace period and a 10 year payback period. The main negative of Rio Grande Do Sul was the recent change in its state government creating an uncertainty in political views toward foreign investment. Olivio Dutra had just been voted into office and was greatly opposed to the deal and the financial incentives that had been previously offered to Dell by the state.

This change in the political environment was a huge negative as Dell's new deal was now discarded. Dell eventually decided to invest in the Rio Grande Do Sul mainly because of its investment promotion agency, Polo. As described above, the Polo was very catering to Dell's specific needs. Polo was very well prepared when the site selection team came to visit. The agency arranged private interviews with business leaders and state officials. It even took Dell's selection team to a local bar that resembled the atmosphere of Texas.

This local microbrewery contained well educated and friendly people, which convinced the team that there was certainly qualified, personable, and articulate people that could be hired at the new plant. Polo's determination and quick, thorough preparation won the attention of Dell's selection. In addition, the state offered Dell the most favorable financial incentives out of the 5 states. 3. Why didn't the new governor Olivio Dutra approve of the deal that former governor Britto had negotiated with Dell? Olivio Dutra was part of the socialist Workers' Party.

He did not approve of the deal because he was opposed to the government giving multinational corporations special incentives and benefits. By offering these corporations special benefits, the multinational corporations could play each state against each other for their own self interest. Many felt that these corporations were already extremely wealthy and did not need to be seeking tax advantages from poor states. Throughout his campaign against governor Britto, he focused on criticizing the excessive benefits that Britto had given these multinational corporations.

Therefore, when Dutra finally took office, he had to follow through with his words and take action. This then led to Dutra rejecting Dell and Ford's deals by suspending the loans granted to these corporations and refusing to offer tax incentives. 4. Given the changed terms of operation, which of Dell's options seems most plausible to you: (a) Leave Brazil entirely? ; (b) Move the plant to another state? ; or (c) Try to renegotiate with Governor Dutra? I believe that Dell should first try to renegotiate with Governor Dutra. Dutra's actions had already caused the state to lose Ford's investment.

Losing another huge opportunity for investment in Rio Grande Do Sul would be horrible for Dutra's reputation as the new governor. Therefore, I believe Dutra would be willing to be less strict concerning its "no incentives" policy. As the case states, Dutra was even willing to renegotiate with Ford after hearing that it was moving its operations to another state. However, Ford had already made their decision to move and was not going to renegotiate. Therefore, I believe Dutra would not also risk losing Dell's investment and would be even more willing to renegotiate with the company.

It would not hurt Dell to see what Dutra will offer during renegotiations. If Dutra still maintains a strict stance on providing few incentives, then Dell should move its operations to Minas Gerais, which had also offered favorable financial incentives. Although the company may be concerned over the political policy uncertainty of Dutra, Dutra has had a reputation for his honest and effective ways. For this reason, if he does grant Dell financial incentives, he would stay true to his words so Dell would not have to question the future political environment. 5) In your view, which factor was decisive for Governor Dutra's new relaxed policy towards Dell? The decisive factor for Governor Dutra's new relaxed policy was Ford's decision to move its operations out of the state to Bahia. The loss of Ford's investment was detrimental to Rio Grande do Sul because Ford's operations in the state could have improved its economy and provided thousands of jobs for its residents. For this reason, this lost opportunity was very bad for Governor Dutra's political reputation in the eyes of Rio Grande do Sul's people.

If Governor Dutra also let Dell's investment slip away, this could ruin Dutra's political status and eliminate his chances of ever being reelected as governor. Therefore, Dutra probably learned from his mistake in the Ford renegotiations of being too strict with his "no incentive" policy. Dell could easily move its operations to another state such as Minas Gerais, who also offered Dell similar incentives. This would be easy to do since Dell had not yet started to build its plant in Rio Grande do Sul. This certainly caused Dutra to have a more relaxed policy towards Dell with the intention to not lose Dell's investment as well.