Pestl analysis and swimwear industry review

Largely internally focused, Brazil is opening its doors to more international trade, though biased towards exports rather than imports. For the foreign company doing business in Brazil, there are few barriers to entry, however there are significant tax, legal and social implications which must be evaluated before deciding to enter the Brazilian market.

These can increase the cost of goods by more than 100% of their value, and impact the ability of a firm to compete. The local swimwear industry is worth approximately US$3bn and is dominated by several highly successful brands with an international presence.

Opportunities exist for differentiated products to enter the market, however the market entry strategies must be carefully considered. For established brands a licensing strategy may be appropriate, and for smaller businesses, an aggressive export strategy through local distributors is recommended.

SITUATION ANALYSIS POLITICAL Brazil has been dominated by a series of military and populist governments since gaining independence from the Portuguese in 1822. In 1985 the military regime transferred power to civilian rulers. It is a federal republic composed of 26 states and a federal district, with three tiers of government.

Each state has its own government structure which mirrors that at the federal level.

There are over 5, 500 municipal councils. Voting is universal and compulsory for all literate citizens from 18-70, and optional for those aged 16-17 and over 70, or who are illiterate. Under Brazil’s Constitution, the president and vice president are elected by popular vote for four-year terms. The National Congress consists of the Federal Senate with 81 members serving eight year terms, and the Chamber of Deputies consisting of 513 members elected by proportional representation to serve four-year terms.

Department of Foreign Affairs & Trade 2009) Throughout most of its modern history, Brazil has tended to focus on its relationship with other Latin American neighbours. In the 1990's under the administration of President Fernando Cardoso (1995-2003), Brazil broadened its approach to international trade as part of a greater industrialisation strategy to coincide with the growth in the export of manufactured goods, not just raw materials. President Luiz Inacio Lula da Silva took office in 2003, and began a second and final term in 2007 (the Brazilian constitution does not permit a President to seek office for a third).

President Lula has been a strong proponent of developing countries and has fostered relationships with other developing nations such as China, India and South Africa. Economic reform is a key platform, and the current government has been instrumental in controlling inflation, reducing government spending and improving trade.

Brazil is very active in global forums such as the World Economic Forum and the G8 forum, lobbying for free trade agreements and removal of anti-competitive subsidies.

For example, in 2002 through the World Trade Organization (of which it became a member in 1995), Brazil initiated a dispute against the United States claiming subsidies of its cotton industry were unfair to the Brazilian cotton industry. The WTO handed down its final ruling in August 2009, advising that American goods will face around $295-million in annual sanctions as a result of the United States' failure to eliminate illegal subsidies to U. S.

cotton growers. (Klapper 2009). Reducing poverty is a major initiative of the Lulu administration. Income distribution in Brazil is one of the most unequal in the world.

In 1989 it ranked second, in 2006, it ranked tenth. (Matins-Bekat and Kulkarni 2009).

Standards of living have been lifted through economic stabilisation and social programs, such as Bolsa Familia (Family Fund Program) which provides support to parents to feed, clothe, educate and care for their children. Corruption is a continuing problem with the divide between rich and poor, and the high levels of crime. In Transparency Internationals' annual Corruption Perception Index, in 2008 Brazil ranked 80 (with the 1st ranking being the least corrupt) out of 180 countries. Transparency International n. d.

). The Government itself is the target of corruption accusations. For example, the Senate has only 81 members, but is supported by a staff of more than 10, 000 – with benefits such as health insurance, generous pensions and housing allowances, leading to claims of nepotism. Police are currently investigation more than 660 acts that have been passed since 1995 that have awarded jobs and pay rises to members of staff, and four Senate

Presidents in the last 8 years have been embroiled in scandals. (The Economist 2009) ECONOMIC

With a population of 192 million, Brazil is Latin America's largest economy and the world's 10th largest with a GDP of $US1, 314 billion in 2007. (Department of Foreign Affairs ; Trade 2009).

The diversity of its exports across the agricultural, mining, service and manufacturing sectors has minimised the impact and duration of the worldwide financial crisis. Recent economic data suggests the country is well on the way to recovery. The benchmark Bovespa index BVSP has rallied more than 55 percent this year. Second-quarter gross domestic product grew by 1. percent from the previous quarter and GDP growth of 2 to 3 percent is anticipated in the third quarter (Lopez 2009). From January to August 2009, Brazil accumulated a trade surplus of $19.

9 billion, up 18. 7 percent year-on-year. Exports reached $13. 8 billion, up 7. 2 percent from July, and imports totalled $10.

7 billion, up 5. 1 percent. Despite the improvement, exports this August were 29. 9 percent lower than in August 2008, and imports were down 38.

3 percent over the same period. (Field 2009). The positive economic outlook is a result of many factors.

Brazil's currency (Reais) has depreciated by as much as 30% following the collapse of Lehman Bros in September 2008, however the devaluation has helped exports. Brazil's Central Bank, has assisted companies to repay foreign debt and allowed commercial banks to draw down some of the funds they are required to deposit at the Central Bank in normal times.

State owned development banks have increased their lending. (The Americas: Pain but no panic; Latin America’s economies 2009) Brazil has relatively low exposure to international trade.

Its largest trading partner is the United States followed by Argentina and China. In 2008, Australia ranked 35th as an export destination and 31st as in import source. (Department of Foreign Affairs ; Trade 2009).

The most important economic group to Brazil is the Southern Cone Common Market (known in Portuguese as Mercosur) Mercosur was formed in 1991 by Brazil, Argentina, Paraguay and Uruguay and soon to be joined by Venezuala. Under the treaty, tariffs between members are lowered gradually on most products while common external tariffs are applied to non-members. Department of Foreign Affairs ; Trade 2009) Australian economic engagement with Brazil has grown steadily since the mid-1990s, most notably in the mining, agribusiness and services sectors. Two-way merchandise trade between Australia and Brazil was A$1. 98 billion in 2007-08, a 15. 6 per cent increase on the previous year.

Merchandise trade comprised exports of A$938 million to Brazil and imports of A$1, 040 million from Brazil (refer Brazil country fact sheet). Major exports to Brazil included coal, nickel ores and medicaments. Major mports from Brazil included aircraft, animal feed, pulp and waste paper, fruit juices and pig iron. (Department of Foreign Affairs ; Trade 2009) SOCIAL Brazil is a family orientated society. Families are generally large, and extended.

The population is generally young, with only 6. 4% aged 65 or over (CIA 2009) Brazilians are a sports-oriented and football is a popular national sport and is followed closely on television. There are many public pitches (grass and sand), particularly in less privileged and rural areas, where football championships are played every weekend.

Over the years, indoor football societies have been growing in popularity amongst both low and high income males in urban areas as a way to meet up with friends and co-workers. In 1999 the International Football Federation (FIFA) instituted its Project Goal to help local soccer federations improve facilities and promote the sport.

This has included significant investments in Brazil to build indoor football courts (many of which are actually outdoors) using artificial turf in regions where fields are in generally poor conditions. (Euromonitor 2007) Watching television is a common leisure time activity in Brazil.

The importance of the media has led many product marketing activities to be conducted by way of soap operas and soccer team sponsorships. According to poll research conducted by Nickelodeon, Brazilian children’s favourite leisure activities include watching television (88%), watching DVDs (83%) and listening to music (82%).

(Euromonitor 2007) With wide Internet and mobile phone usage, communicating with friends in social sites like Orkut (Google) or through text messaging has progressed at a pace similar to that seen in more developed countries.

Eating out is also a popular pastime, which, in recent years, has become more accessible to lower income families, chiefly due to the growth in low-cost alternatives, like independent (many of which are informal) full-service restaurants. Brazilians enjoy visiting shopping malls as a family outing, going to the cinema, frequenting parks and beaches and hosting barbecues at their homes. The business model of several Brazilian markets, particularly clothing and home decoration, is based on " emotional consumption".

Brazilian consumers are expressive, gravitate towards emotions and feelings, and are very keen n acquiring " happiness" through what they buy. The tendency in this country is related to the " fashion" concept, by which people are not buying to fulfil a need but to assuage " cravings" and " emotions" generated by the products. Bed linen, furniture, jewellery, shoes, accessories and decoration more broadly, nutrition and cars are included in this trend. Style, sensuality, cheer and satisfaction are some of the things that emotional consumers want in the products and services they buy. Growth of consumer expenditure of selected categories: 2002-2007Source: Euromonitor International| | TECHNOLOGICAL According to Euromonitor International, there are over 53 million internet users in Brazil, a penetration of close to 23% of Brazilian households. While most users are found in higher income groups there is growing demand by lower income consumers.

The Government has implemented a range of programs to make computer access more affordable, including in 2005, the " people's computer programme" (PC Conectado), to sell computers with internet access at affordable prices and accessible payment terms to the underprivileged.

The government expected to sell an estimated one million machines in 2005, retailing for approximately R$1, 200 each, 55% less than retail outlets, financed in instalments of R$50-R$60 per month. The same programme offers internet access for R$7. 50 for 15 hours of use per month. Additionally, in 2006, tax cuts were instituted on computers retailing for less than R$2, 000, generating overall price discounting of 30%. Children and young adults are amongst the primary users of the internet in the country.

Euromonitor 2007) According to an e-consumer census conducted by the Camara Brasileira de Comercio Eletronico (Brazilian Chamber of Electronic Commerce), the average Brazilian e-consumer is 25-49 years of age (71% are 25-49, 12% are 50-62, 12% are 18-24, 1% are 17 and younger and 1% are over age 65), grouped in classes A and B, and predominantly male. Just over 35% of e-consumers earn between R$3, 000-R$8, 000 per month, 31% R$1, 000-R$3, 000 per month and 5%, less than R$1, 000 per month. To the extent that internet penetration increases in lower income households, transaction values will likely decrease over time.

On-line product sales are mostly concentrated in consumer electronics and media products, though as consumers become more accustomed to purchasing higher-end products on-line other categories will likely become more popular, including, for instance, cosmetics and food and beverages.

(Euromonitor 2007) LEGAL The basic law of Brazil is the constitution, which establishes the system and powers of the government. The Brazilian judiciary is organised into federal and state courts. Federal courts tend to hear matters involving the federal government and its agencies, or foreign states or international bodies.

State courts hear most other matters, including private commercial litigation. The legal system is based on civil law and the application of statutory laws.

Precedents are not binding, though are respected and may be referred to in the general application of the principles of law. There are significant appeal opportunities permitted in the Brazilian system, which can delay proceedings, and rulings are decided on by Judges. Juries are used only crimes that threaten individual life, such as murder. There is also an established system of arbitration since 1996, particularly for contractual and commercial disputes.

Foreign investment needs to be registered with the Central Bank of Brazil, who has established guidelines for a number of matters, such as profit remittance and repatriation of capital (for example the amount of withholding tax charged on the sale of an investment) There are few restrictions on foreign ownership of companies. Exceptions apply to rural land, press and broadcasting and banking and insurance, although even these are expected to be relaxed in the near future.

Two types of companies generally operate in business. The limited liability company (“ limitada”) and the corporation (“ sociedade anononima”).

The limitada requires at least two partners who have limited liability and is a more simple and flexible form of organisation. The sociedade anonima is similar to an Australian company in which there are a large number of shareholders. There are significant labour rights, which are compiled in the Consolidation of Labor Laws-CLT (“ Consolidacao das Leis do Trabalho”) and articulates such rights as the limit of working hours (44 hours per week or 8 hours per day), annual leave (30 calendar days per 12 months), profit sharing, overtime entitlements, parental leave, notice periods and pension funds among others.

Brazil operates under a strict immigration policy to protect employment and the economy.

For example, foreign companies transferring employees may have to prove that the firm has “ invested at least US$200, 000 into the capital stock of the Brazilian company for each foreign citizen to occupy a position as director or officer in the company” (Demarest & Almeida 2006). Imports must be electronically registered with the Integrated System of Foreign Trade (“ Sistema Integrado de Comercio Exterior) – SISCOMEX. All imports are subject to a range of tariffs, duties and taxes.

There are incentives programs for Technological development which reduce taxes and waiver the application of numerous regulations. The goal is to increase the capacity of companies to develop new products and processes through technical research and development.

Brazil has anti-competitive laws defended by several governmental agencies collectively referred to as the Brazilian System of Competition Defence. Brazil also has robust intellectual property laws which provide protection for infringements against trademarks, patents and copyright.

Environmental protection is articulated in the National Policy Law for the Environment, and covers regulations for a range of industrial activities and definitions of liability. ENVIRONMENTAL While Brazil has relaxed restrictions on foreign investment it is still heavily favoured towards exports, not imports and consequently, there are still a number of barriers and restrictions that may be encountered.

Import tariffs range from 0 to 35% and several taxes can increase of costs of imports by up to 100% of their value. Brazil has an overly complex tax system which may add significantly to the costs of doing business.

There are federal, state and local levels to deal with, and up to 63 different taxes that may be levied against a firm. The total time it takes a medium-sized company in Brazil to prepare, file, pay or withhold its taxes and contributions is estimated at 2, 600 hours per year, compared to the 202 hours average in OECD countries. This means higher expenses as companies need more employees to prepare tax declarations and deal with the tax agency. (Euromonitor 2007) Tax evasion is rife due to the large informal sector.

This creates challenges for businesses which pay tax, as they can be easily undercut by those that don’t.

Employees in the informal sector may also be paid better as they do not have income tax withheld from their salaries. The tax burden is extremely high, and while the top level of company tax is 34%, additional indirect taxes can reach as much as 71. 7% of profits.

Compared to average tax burdens of 47% in OECD countries, this poses a significant disadvantage for businesses in Brazil. (Euromonitor 2007) The government has come under pressure to reform the tax system, however there is considerable opposition at local and state level, and no significant structural overhaul is anticipated in the short to medium term.

The labour market in Brazil is heavily dominated by Unions and extremely rigid, adding to costs and impacting productivity. The non-wage costs such as payments for social security, benefits and payroll taxes add 37% of an employee’s salary, compared to an OECD average of 21% and a regional average of 12%. Complexity of labour regulations is also a threat for companies.

Employees are not permitted to perform any tasks for which they have not been specifically employed, and any who spend time beyond their regular working hours may claim overtime. Euromonitor 2007) Disposable income per capita has grown at an average annual rate of 12. 6% in real US$ terms, and consumption at a 15. 6% annual rate over the same period. Brazil has among the least equitable distribution of income in the world, which has led to an extremely large segment of households (41. 5%) earning less than US$2, 500 in 2006.

This segment, although in most cases lacking the means to acquire anything more than basic goods, has turned strongly towards consumption of durable goods such as TVs, stereo systems, personal DVD players and mobile phones and led to a major rise in consumer credit. Euromonitor 2007) THE SWIMWEAR INDUSTRY Between 2002 and 2005 the swimwear industry in

Brazil grew more than 241%, with sales of US$2. 9bn in 2005 alone. Major export markets include the USA, Portugal, Spain, Holland and France with more than 1.

7m swimsuits exported annually. The domestic market is valued at EUR1. 4bn (Newbery 2007). The local market is dominated by Brazilian brands. Foreign brands gain entry only through the high fashion segment. For example, European exports of swimwear to Brazil average less than 10, 000 units annually (Newbery 2007).

In the north-coastal areas, bikinis tend to be very small, with minimal coverage, and colourful. In the south-coastal areas, it is more ethnic – with larger European populations, so the influences of the European styles are more evident and are usually more conservative. The distribution of brands is focused through many dedicated beach fashion stores, surf-shops and sports stores. The major swimwear brands all have concept stores.

The price range for a branded bikini is approximately USD$40 and for the lower end of the mass market, around USD$10.