

Market analysis and market entry strategies for brazil



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Accompanied by the globalisation the necessity and need for every company to rival on a global level in order to prevail arises. Hence, more and more companies pursue an expansion strategy out of reasons such as product diversification, lower costs, economies of scales and country incentives (Shook, 2008).

Therefore this report will concentrate on the expansion of the sandwich chain Pret a Manger with a special focus on their market entry into the Brazilian market. Beneath Russia, India and China, Brazil is one of the BRIC countries and has on the one hand a highly developing economic growth and on the other hand a huge customer potential for the sandwich chain as Brazil has a population of approximately 185 million (Embassy of Brazil, 2010).

The English sandwich chain was founded in 1986 by the college friends Sinclair and Julian and is headquartered in London, England. With its 225 shops, which are - amongst some shops in the U. S. and in Hong Kong - mostly located within the UK, Pret has a turnover of approximately 200 million pounds per year and employs around 4000 people. Their USP is the offering of fresh made food, avoiding preservatives and additives, which sets the company apart from the normal fast food chains (Pret, 2010a).

According to their USP the company collects and distributes the food that hasn't been sold on that day to charity organisations every evening.

Moreover the company directs its attention to sustainability concerning food purchasing, packaging, carbon emission, energy, waste and recycling (Pret, 2010c).

When planning to expand globally a company needs to develop a global marketing strategy.

Therefore this report will deal with the analysis of the Brazilian market on the one hand, including tools such as BERI Index, PESTLE analysis, Porters' 5 Forces and MIS to be able to constitute the attractiveness of the market and to spot opportunities and threats that may arise when entering this market (Aaker/McLoughlin, 2010).

On the other hand this report will concentrate on a possible market entry strategy for the companies' products and services which will enable the company to achieve their objectives and to be successful within the Brazilian market.

Market Analysis

2. 1. BERI Index

The Business Environment Risk Intelligent Index is an index to assess and forecast the political, financial and economic situation of a country for international lenders. The single factors are scaled from zero to four, with zero constituting unacceptable conditions to four constituting superior conditions, and are weighted to their valued importance. Looking at the BERI Index of Brazil it can be said that the country, with 61, 5 points, can be classified as an "immature economy with investment potential" (Hollensen, 2007, p. 251).

With an overall score of 10, economic growth is the highest ranked factor within the BERI Index, as Brazil is a newly industrialized country and has a therefore a huge growth potential.

The lowest ranked factor is local management and partner because of among others the doubtfulness of corruption (Economist, 2010).[1]

2. 2. PESTLE Analysis

The factors of the external macro environment can be analysed with a PESTLE analysis. This framework includes the political, economic, social, technological, legal and environmental factors, which are country specific and are mostly factors a company cannot control. Changes in the external environment can either depict threats or opportunities for a company.

Therefore a company that wants to enter a new market must conduct a PESTLE Analysis to be aware of the external circumstances (Nejati et al., 2008).

For Pret a Manger, planning to expand their sandwich chain to the Brazilian market this report will examine the most important success-factors, which are in the context of this company the social, political and economical factors. The three major changes that can be exposed in this context are:

Strong economic growth (BRIC) (Euromonitor, 2009a)

Emergence of wealthier income classes (Datamonitor, 2009)

Orientation towards healthier lifestyles (Euromonitor, 2009a)

The detailed PESTLE analysis can be inspected in Appendix D.

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2. 3. Porters' 5 Forces

Porters' 5 Forces is a framework that helps every company to better understand the circumstances in which a firm operates, by analysing the five forces that are influencing each industry, ranking them from 1 to 5. The benefit of this framework is that when having analysed the environment of the aimed industry and being aware of the industry structure a company can gain competitive advantage when positioning itself according to that structure (Grimm et al., 2006).

Looking at the Brazilian foodservice industry the first point to consider is the competitive rivalry within this industry. According to the competitive rivalry Brazil can be rated as strong (4). This is due to the fact that Brazil has a highly competitive market as there is a strong culture of eating out. Moreover the fast food sector is continuously growing and well-known fast food chains such as Mc Donald's are spreading all over the country and challenge local providers (Euromonitor, 2009a). The threat of new entrants can also be ranked as strong (4), as many companies are attracted to the Brazilian market due to the rapidly growing economy. Beyond that entry and exit costs are low, which makes the market attractive for potential foodservice companies. These days many foreign foodservice chains are entering the Brazilian market which makes the threat of new entrants strong because the middle class continuously rises and therefore increases the customer base for these companies as well. Overall customers don't tend to stick to a single chain. Home cooking, leisure activities and food retail are substitutes for the foodservice industry. But the threat of substitutes can be ranked as moderate (3) as Brazilians like to eat out (Euromonitor, 2009a).

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Regarding the buyer power it can be said that switching costs for buyers are low (2) but an individual consumer has only little bargaining power concerning price-negotiation. The supplier power can be seen as moderate (3) as suppliers have more bargaining power than consumers. Besides farmers and food manufacturers staff can also be seen as a supplier. As long as labour costs are high in the foodservice industry, which is known as a low-margin industry, staff has bargaining power too.

2. 4. Hofstede

According to Geert Hofstede (2010a) “ culture is more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster.” Therefore every company must specifically look at the cultural differences that may occur, when entering a new market. Hence, looking at the cultural differences between the UK and Brazil is essential for Pret a Manger to be able to react accordingly. Those differences are depicted in Table 2.

There are significant differences between the Brazilian and the UK culture. Collectivism beats individualism in Brazil and the power distance and the uncertainty avoidance index show that Brazilians prefer rules. These are significant cultural differences and Pret a Manger has to monitor all its steps in Brazil to be able to adjust problems that might occur due to these differences immediately.

2. 5. Segmentation

To be able to offer custom-tailored products and services each company, which doesn't want to pursue a mass market strategy, has to define market

segments to be able to increase the efficiency and effectiveness of their marketing endeavours. When a company is able to specifically align their products and services to the customers' needs it is more likely to record cost savings as there is only minimal marketing wastage and the involvement of the customer is likely to increase which will in the end be a boon to the company (Conrady et al., 2008). Demographics, psychographics and behaviour are the three areas of the segmentation process. Looking at the demographics Prets average customers are between 25 and 45 years, are business women/men with middle to high income level. On the psychographic side Prets consumer segment has a lifestyle that could be mentioned as yuppie as consumers are active, busy and fashionable. Furthermore, looking at the behaviour of the consumers, it can be said that there is a tendency to fast - and convenience food due to a lack of time. In Prets targeted segment brand loyalty is not high as there are various opportunities for consumers to buy food. As the segments of UK and Brazil are identical, this would match Levitt's standardisation approach. But as there are slightly different preferences in Brazil Pret has to make local adjustments to fulfil the customers' needs. Therefore Pret has to follow a polycentric approach.

2. 6. Marketing Information System

A marketing information system (MIS) is a helpful tool to collect and analyse customer information to support the marketing planning, by assessing market research data (Armstrong, 2003). Therefore Pret establishes a branch of its marketing research office in Sao Paulo, Brazil. To gather all the required information the 12 C-Framework can be used and its most

important points to develop a profile of the Brazilian market (Doole/Lowe, 2008). For example Pret needs to know more about the consumer behaviour and when and how they prefer to eat sandwiches. Concerning the consumption the company has to consider how many sandwiches they can sell per day per store. Moreover the commitment needs to be assessed respective how the consumers feel about the product and whether they appreciate the freshness and sustainability of the offered products. Another interesting point are the choices to evaluate in how far the local taste has to be integrated within the menu. The capacity to pay is another evident point as every nationality is different regarding the capacity and willingness to pay. Therefore the Big-Mac-Index could be a good figure to measure this and to establish prices in foreign currencies, but Pret needs to think about whether this index would be useful for them or whether it wouldn't be better to research a sandwich index. All those questions have to be answered by Prets research office.

Market Entry

3. 1. Objectives

The targets given by Prets management concerning the market entry to Brazil are

To develop a strong position in Brazil

To establish a consistent brand globally in the long term

To gain 10% market share in the first year

To increase sales by 3% year on year for the next five years

To secure long term profitability

To stay in a budget of £250 million

Business objectives are essential for every company and a key for business success.

Their aim is to set up targets on which every single person can orientate itself, to conduce as a measure of success and failure of the company and an overall guideline (Stockton, 1998).

3. 2. Entry Strategy

Pret a Mangers entry strategy for Brazil is going to consist of starting 200 wholly-owned subsidiaries. With this concept Pret is able to navigate and control the whole process and is able to adapt their strategy if things don't work out the way they should.

Looking at the store concept Pret will on the one hand establish their common store concept " Local Pret", where there is an outside area, a lounge, a dining area and a refrigerated self-service counter to provide a second home for their customers (Pret, 2010d). On the other hand Pret invented a new store concept called " Kiosk Pret" especially for the Brazilian market, where the food is sold through a window directly to the customer and will be set up in busy areas, where the people have time constraints. This idea arose out of market research, where they found that this concept is quite popular and successful in the Brazilian market (Maria Brazil, 2010).

Concerning the location Prets Shops will be set up mainly in the city centres, shopping centres, in tourist areas near attractions, in business areas and in airports and stations. As you can see in figure 2 for their first market entry to Brazil Pret has targeted to open up stores in Sao Paulo, Rio de Janeiro and Victoria as those cities have a huge population-density (altogether around 55 million) and are the main attraction for tourists.

3.3. Food and Internal Structure

According to the food supply Pret decided to do local sourcing in Brazil to guarantee the freshness of the offered products for their customers.

Therefore the company has to make contracts with local bread, milk and other suppliers. To guarantee the freshness of the offered products Pret establishes two distribution centres, one in Sao Paulo and one in Rio to be able to deliver the food just in time. Furthermore Pret will establish a quality control management which is responsible for the operational such as the presentation of food, service and food quality.

As Brazilians like to eat sandwiches Prets bread range will comprise baguettes, sandwiches and hamburger rolls. Because Brazilians prefer to eat sandwiches in the morning and in the evening, Pret includes one speciality - Feijoada Completa - in their product range which is to be offered at noon. This speciality is a stew of beans with beef and pork meats which is a typical Brazilian dish. Concerning cultural differences it can be said that Brazilians don't like to touch their food by hand (Maria Brazil, 2010). Therefore Pret invented a napkin wrap, so that the food is covered and ready to eat for them without having the risk that they wouldn't buy it. The UK packaging, which is cardboard packaging, will be maintained in Brazil as there aren't <https://assignbuster.com/market-analysis-and-market-entry-strategies-for-brazil/>

any cultural differences concerning this. Despite the fact that Brazilians are aware of the overall obesity rate and are searching for healthier options (Euromonitor, 2009a) one of the most famous burgers in Brazil is the “ X-Everything”, which has 1300 calories and contains several ingredients such as chicken, sausage, ham, bacon, cheese and so on (Ribeiro, 2010). As this is not a healthy option Pret is likely to succeed with its niche positioning, offering a product range that represents a better and healthier alternative to other fast food chains.

With regard to the internal structure for Brazil Pret will acquire and train the staff continuously as they have chosen to only enter the market with wholly-owned subsidiaries. Moreover Pret will hire one UK estate manager, who will be responsible for 10 shops in general. To comply with the law and to have good working conditions, which also contribute to a good company image, Pret will establish a two-shift system. The opening times for the city centre will be from 8 am to 6 pm and shops within shopping centres will be opened from 10 am until 11 pm.

3. 4. Branding

There are four steps of building a strong brand that are contained within the customer-based brand equity model. This branding ladder has an ordering, which means all the steps are interdependent. It helps to define/describe the brand and helps to assist the overall brand building process. To achieve those 4 steps the company has to establish brand building blocks. The most valuable block is the resonance as this implies that the customer has a great loyalty to that brand (Keller et al., 2008). Those four steps are depicted in

figure 3.[2]

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If the company wants to be successful and to be able to reach as many customers as possible they should meld the left hand side of the pyramid, which contains product related associations, and the right hand side of the pyramid, which contains non product related emotional associations (Keller, 2001).

The CBBE Pyramid of Pret is depicted in Figure 5. The Brand identity is about the creation of perceptual salience, which should ensure that the consumer is aware of the companies offered products. It is important that the customer, when wanting to buy a sandwich, associates Pret with the selling of sandwiches. Prets brand identity is that they can be identified as a sandwich provider. To create a brand meaning the company must develop an image that stresses how the brand should be perceived from their target group. This derives either from the performance or the image. The customer associations arise either from self experience or advertising. Whereas the brand performance is geared towards communicating and providing a product that meets and satisfies customer needs, the brand image is more about how people should experience the brand in an abstract way. The brand meaning of Pret is that they are all about freshness, health and sustainability. Moreover they deliver good quality, meet convenience needs and have a dependable service (Pret, 2010b).

If the brand is perceived as unique it supports in the next step a great brand response. As the word implies brand response is all about how consumers feel about and respond to the brand which can either happen due to rational judgements or feelings. Consumers' judgements originate after assessing all perceived performance and imagery points like the quality, credibility and <https://assignbuster.com/market-analysis-and-market-entry-strategies-for-brazil/>

superiority of the brand. The brand feeling is about what the customer feels, when he thinks of the brand which can amongst others be warmth, fun, excitement or security. Therefore the brand response, when the brand meaning is perceived correctly, should be positive in that kind of way that the customer realizes that Pret is a healthier alternative to other fast-food providers because it is seen as unique and credible. If Pret gets this brand response they are able to build a loyal brand relationship with their customers, because they have only a few direct competitors with a similar branding and are able to constantly increase their brand resonance (Keller, 2001).

3. 5. Marketing

To create a favoured brand image Pret has to plan actions within their marketing strategy that are necessary to achieve their marketing goals. The marketing plan for Brazil is adjusted to local preferences. Therefore Pret signed a contract with Robinho, a famous football player, who will be the endorsement for their city-light campaign underlining the healthy concept. This campaign starts half a year before Prets opening to raise people's interest in the brand and the banners will be placed at top locations. One week before opening Pret will print a full-page ad in the local newspapers to make people aware of the company's upcoming opening. To maximize event exposure advertisements take place on the peak hour commute to and from work two weeks prior to store opening. Prets event sponsoring will comprise beach soccer, as Robinho is a football player and beach soccer is the most famous sport in Brazil. Concerning the prize and taste promotion Pret will provide free nibbles on the opening day as well as special prices to attract

potential customers. Moreover Pret is establishing a one-to-one marketing concept to be able to inform the people about new variations of products directly regarding to their preferences.

Branding and Positioning

4. 1. Branding

Despite the product, which is a tangible asset of a company, a brand is much more than that as it compasses the company's values and when established successfully would even exist in the customers minds when a disaster would destroy all tangible assets. In today's competitive landscape in which the products are homogenous, brands are an important factor to differentiate the company from its competitors and to gain competitive advantage by achieving customer loyalty (Armstrong et al., 2009).

For consumers brands are quiet helpful as they help them to:

identify the source of product,

devolve the responsibility to the company when the product doesn't work,

reduce the perceived risk as the brand guarantees a special quality

reduce time efforts as consumer is able to immediately find its brand in the store

function as a symbolic device (Parameswaran, 2008)

The key to success for every company is therefore not only to communicate their brand values to affect the perceptions of the customers but to over-

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satisfy their expectations to be able to compete in today's highly competitive market (Nilson, 2000).

How important the establishment of a powerful brand is can be clarified with the example of a blind-test, where people were asked to make a comparison between Coke and Pepsi. Whereas in the blind test the majority of people preferred Pepsi (51%) rather than Coke (44%)[3]the open test revealed that with 65% Coke was more popular than Pepsi with only 23%[4] (Chernatony et al., 2002).

This once more underpins the importance of building a strong brand. The advantages for companies that have a strong brand are that they have a risk reduction because they have a huge loyal customer base and therefore their future sales and revenues are ensured (Kapferer, 2008). As delineated in chapter 3. 4. branding is about how the company communicates their brand to their customers whereas brand equity is the value that is being ascribed to a brand from a customer's point of view. For Pret a Manger wanting to open up stores in Brazil it is important to decide whether they want to build a global brand with or without adaptation. According to Levitt (1983), who is a proponent of the standardization approach, a straight extension strategy by which the same promotion and products are offered globally is the best way to generate economies of scale.

Contrary Aaker (2000) stresses that those global brands that incorporate different cultural needs are perceived as successful, whilst managing to retain a similar brand identity and advertising strategy across all countries. For Pret a Manger the establishment of a unique global brand is essential to

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be successful in the long run as the company wants to further internationalise its business. Nevertheless the company needs to be aware of the differences in consumer behaviour according tastes, perceptions, aesthetic preferences to be able to adjust to different cultural needs in every country to gain market share. As mentioned in chapter 3. 3. Brazilians are aware of their high obesity rate and are searching for healthier options. Therefore entering the market with a concept of healthy food options is a good choice as Brazilians are already aware of this issue.

Brazilians are proud of their culture simultaneously they are open for foreign companies entering their country as those are connected with better quality for most people living in BRIC countries. Nevertheless the influence of culture in the food sector is quite high as they are reflected in local needs and tastes. Therefore Pret adapts their food to the local needs as mentioned in chapter 3. 3. and uses Robinho in their advertising campaign to elicit national pride. To successfully extend their brand equity on a global scope Pret builds on a human concern that is omnipresent nowadays: sustainability and healthiness, which helps them to reach consumers regardless of their cultural background and gives them the additional value of being perceived as a global brand. Due to this Pret is able to be approved at local level, while beyond that having the advantages of economies of scale (Hollis, 2008).

Positioning

Rise and Trout's (2001, p. 2) definition of product positioning emphasizes "Positioning is not what you do to the product. Positioning is what you do to the mind of the prospect." The quintessence of this definition is that the "ultimate battleground of marketing" is the prospect's mind. When customers
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want to purchase a special product or service they tend to assess the differences between the objects of comparison. Hence, they create a mental picture of the relevant objects of comparison through the allocation of features. This signifies that the single objects are positioned by the prospects mentally (Kotler and Bliemel, 2001).

Therefore it is important for every company to understand the costumers mind to position its brand in the right mode to come first into mind when consumer are thinking about a special product. This is especially important in a time, where information overload is omnipresent and consumers are selective to either take or ignore presented information (Trout, 1996).

According to Trout (1996) the principles of brand positioning are:

Establish a position in the targeted costumers' minds

Provide a simple and consistent message, which conveys the companies benefits

Differentiate a company from other companies

Focus the companies' efforts; do not provide all things to all people.

(Lovelock et al.,

2002)

Prets USP is the offering of fresh made food, avoiding preservatives and additives, which sets the company apart from the normal fast food chains and therefore differentiates it with the help of their products (Pret, 2010a).

Moreover Prets customers don't have to queue for their products as they are freshly prepared on that day, which isn't common for brands like Subway and Co.; this strengthens their rapid customer service respective service quality and makes them unique (Sanai, 2001).

Gaining competitive advantage can either be achieved by selling products at a lower price or by increasing the benefit to customers in order to charge higher prices. The important factor of differentiating a company through the offering of higher value is that a company has to provide higher value to be perceived as trustworthy (Kotler and Armstrong, 2010).

Pret pursues latter strategy as their benefit is the offering of healthy and fresh made food; in communicating and putting across the benefit of their new concept, which none of their competitors are offering to that extent, Pret will be able to gain the first mover advantage and charge a premium price (Johnson et al., 2008).

The positioning map is a tool to visualise the average perception of the target audiences of your company against competitive brands while comparing USPs and position is what the management wants the company to be in the future. If the perceived positioning doesn't match the companies desired position it has to communicate this message with the help of the marketing mix (Kotler and Armstrong, 2010).

For Pret a Manger the positioning map is useful as it helps them to reveal their current positioning and its potential in contrast to rivals. Figure 6 exemplifies the perceptual map for the Brazilian fast food market.

When there are many products on the map perceived as equal some companies have to face the problem of being a “ me-to” product, which can lead to the fact that they will never be in the top of customers minds in that category. Therefore it is important to define the category, where you are positioning yourself according to customer needs (for Pret: fresh and healthy food). For Pret a Manger in Brazil it is important to pursue a distinct positioning, to become more competitive in the overall fast food sector. The positioning as a healthy option addresses a special target group and will exclude others that aren't interested in that topic. Moreover a clear healthy positioning can lead to a repositioning of competitors, as they could be perceived as unhealthy (Nilson, 2000).

Looking at the competitors in Brazilian food sector it can be revealed, that there is no single chain with an overall focus on healthy and fresh made sandwiches, except minor local stores. The overall trend in Brazil is the investment in healthier food options and the provision of “ fast” food as the increase in disposable income and the rising amount of working women leads to time constraints and the need for healthy food because of the obesity issue. Therefore brands such as McDonalds are adapting their product range and offer salads and wraps. The main competitors of Pret are: McDonalds, Habib's, Bob, Giraffa and Subway (Euromonitor, 2009b). Looking at the perceptual map it can be said that every fast food chain in Brazil has the attempt to offer fresher products therefore they are perceived as mostly equal in the mind of the customers and for some it will be difficult to come into customers mind in the first place. Pret has a unique selling proposition as they provide fast and fresh products and can therefore charge a premium

price as they are offering a perceived added value. To be able to maintain that position Pret has to adjust all their marketing activities to retain it.

Standardization or Adaptation

The discussion over standardization vs. adaptation of a companies marketing strategy in international markets originated in the 1980s through an article of Levitt (Kapferer, 2008).

According to Levitt (1983) successful companies pursue a global standardization approach throughout their entire marketing mix rather than customizing it in different countries to be able to offer low prices due to economies of scale whilst being “ advanced, functional and reliable”. Global companies have, according to Levitt, a better economical performance than those trying to serve several markets by adjusting their marketing mix. He stresses that consumers’ culture steadily converges across markets nowadays and names technology for one of the main reasons, which leads from his point of view to the fact that the whole marketplace is pitilessly homogenized and has common features. In his article he predicts the downfall of multinational firms as global companies, pursuing a standardization approach, that enter the same market will have several advantages against latter.

However, contrary perceptions are represented by other authors. Aaker (2000) and Kapferer et al. (2004) consider that there shouldn’t be a clear cut between those two views suggesting that there should rather be a mixture of both; creating an international brand that incorporates different cultural needs whilst standardizing those parts of the marketing mix that doesn’t

necessarily need to be adjusted. This underpins the ubiquitous saying “ think global, act local”, which means that a company can be perceived as a global brand with all its advantages, although acting global and local at the same time to react to similarities and differences of their targeted markets which can additionally generate competitive advantage (Kapferer, 2008). Pret a Manger wants to further internationalize its business, but nonetheless they are adjusting their marketing mix where perceived as necessary. Therefore the company follows a polycentric approach and must particularly decide about how to tackle each of the seven marketing mix components (Kotler, 2001).

For Pret adjustments have to be made especially concerning product, promotion and physical evidence whereas the other components are standardized to achieve economies of scale. As mentioned in chapter 3. 3. Brazilians only prefer to eat sandwiches in the morning and in the evening; therefore Pret serves a local speciality at noon. Moreover Pret adapts their packaging because of the cultural fact that Brazilians don't want to touch their food by hand as they would otherwise have to face the problem that they can't sell their products. Concerning the promotion Pret pursues a global promotion strategy, but adjusts to different preferences. As mentioned in chapter 3. 5. Robinho is used as an endorser and