

2012 FDC RANKING OF BRAZILIAN TRANSNATIONALS

Sherban Leonardo Cretoiu, Lívia Lopes Barakat, Vanessa Silva Nogueira, Lucas de Medeiros Diniz

INTRODUCTION

In this article, Fundação Dom Cabral's International Business Center presents the results of the 7th Edition of the Ranking of Brazilian Transnationals.

We aim to present a picture of Brazilian multinationals' international operations. In order not to prioritize specific market sectors, our sample consists of companies from different industries and various sizes that illustrate multinational activities in 2011.

Besides classifying companies in terms of internationalization indexes, in this edition, we tried to understand managers' perceptions regarding the benefits of internationalization both for companies and for Brazil.

Our study also investigates how multinationals expand in foreign markets, their performance in domestic and international markets and their expectations for foreign operations in 2012.

This year, besides our annual Ranking of Brazilian Transnationals, the study also presents the Internationalization Ranking of Brazilian Franchises, in its second edition.

Using the internationalization index developed by the International Business Center to analyse franchises, the study includes unique information related to companies that adopt the franchising system as their main entry mode in foreign markets.

We are certain that the information provided by this study illustrates Brazil's current internationalization status and will be valuable for managers in companies going through internationalization processes, and for those interested in the subject. We wish you a pleasant reading.

METHODOLOGY

CRITERIA FOR PARTICIPATION IN THE STUDY

- Brazilian controlled companies.
- Business groups and individual companies not majorly controlled by other groups.
- Companies that are physically present in foreign markets via:
 - Commercial offices;
 - Warehouses and distribution centres;
 - Assembly subsidiaries;
 - Production plants;
 - Provision of services;
 - Banking agencies/Financial services;
 - Research and development;
 - Franchises.

Companies in initial stages of internationalization that export or operate abroad only by means of commercial representatives do not qualify for the study.

WHOLLY OWNED UNITS X FRANCHISES

Brazilian multinationals operate overseas by many different ways. Some have commercial offices to provide support for sales coming from Brazil, while others ship unassembled products (CKD and SKD) and finalize them in their operating markets. Others perform all stages of the value chain in the country of destination. Multinationals in the service sector, such as banks, infrastructure and consultancy services usually have branches to serve their clients or move part of their staff to perform the contracted job on site.

In addition, another type of internationalization that has gained attention of Brazilian companies, especially if they already use this mode in Brazil, is franchise.

Considering that franchising does not necessarily require capital investment from the franchisor, but the transfer of intangible assets to a third party, such as brand, know-how and business system, new metrics are needed to calculate the degree of internationalization of franchising companies. For this reason, FDC's International Business Center developed in 2011 a measure for the degree of internationalization of franchises. Therefore, this article presents the 2nd Edition of the **Internationalization Ranking of Brazilian Franchises**, with an enhanced methodology.

SAMPLES

The 2012 samples were comprised by:

- 47 multinationals operating abroad, mainly by means of wholly owned units.
- 16 Brazilian companies operating abroad, mainly by means of franchise units.

The 2012 Ranking of Brazilian Transnationals and the 2012 Internationalization Ranking of Brazilian Franchises take into account data from company's foreign operations in 2011, and the qualitative information in this study was provided by participant companies.

INTERNATIONALIZATION INDEX

In order to assess the degree of internationalization of participant companies, Fundação Dom Cabral uses the transnationality index, developed by the United Nations Conference on Trade and Development (UNCTAD), as shown below:

$$\text{Transnationality index} = \frac{\text{Foreign assets}}{\text{Total assets}} + \frac{\text{Foreign revenues}}{\text{Total revenues}} + \frac{\text{Foreign employees}}{\text{Total employees}}$$

3

Figure 1

Source: 2012 FDC Ranking of Brazilian Transnationals.

Note that the transnationality index aforementioned was the originator of the project's name when it was created in 2006.

As for the Internationalization Ranking of Brazilian Franchises, Fundação Dom Cabral uses the index developed by the International Business Center, according to the following formula:

$$\text{Internationalization index of franchises} = \frac{\text{Franchised units abroad}}{\text{Total of Franchised Units}} + \frac{\text{Revenues from royalties and fees abroad}}{\text{Total of revenues from royalties and fees}} + \frac{\text{Revenues from product sales for franchise}}{\text{Total revenue from product sales for franchises}}$$

3

Figure 2

Source: 2012 FDC Ranking of Brazilian Transnationals.

RESULTS

The specific theme for the 2012 survey was: What are the benefits related to the internationalization process for companies and for Brazil?

The goal was to understand the benefits perceived by companies already operating overseas, and use that knowledge as a guideline for other multinationals which may be considering starting their own internationalization processes. We also tried to assess the challenges faced by companies and whether the benefits outweigh the difficulties. The results are presented below.

BENEFITS OF INTERNATIONALIZATION

Benefits of internationalization for companies

To analyze this variable, we provided respondents with a list of ten benefits, and they should then rank each item using the following 5 point scale:

- 1 = "Not a benefit"
- 5 = "A great benefit"

Results are shown in the graphs below. The first one is comprised of the whole sample and the second one compares companies operating abroad via wholly owned units and franchise units. For each item, we averaged the assigned scores.

Benefits of the Internationalization for Companies

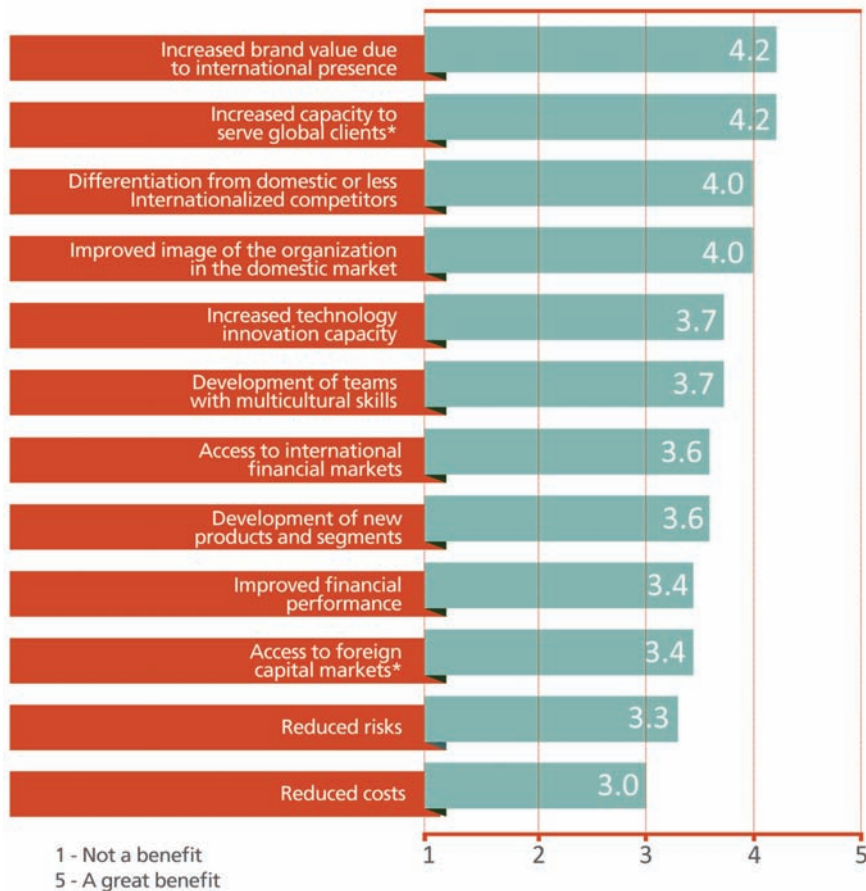


Figure 3
Source: 2012 FDC Ranking of Brazilian Transnationals.

When the opinion of managers is combined, the two major benefits of internationalization are the increased brand value due to international presence, and the increased capacity to serve global clients.

Note that all items averaged scores equal or superior to 3, what indicates that Brazilian multinationals recognize all the alternatives as real benefits.

Furthermore, companies indicated two other benefits in the alternative “others”:

1. Access to new markets with strong economic growth (scored as 4);
2. Increase of company’s competitiveness among international players (scored as 5).

Also, one of the participant companies claimed that Brazilian industry is, in general, losing competitiveness in exports due to the fluctuation of exchange rates. This forced the internationalization of several sectors in order to recover profitability, using production platforms in certain countries to supply their markets around the world¹.

The next graph compares the perception of franchisers with that of company managers with wholly owned subsidiaries.

Benefits of the Internationalization Process for Companies

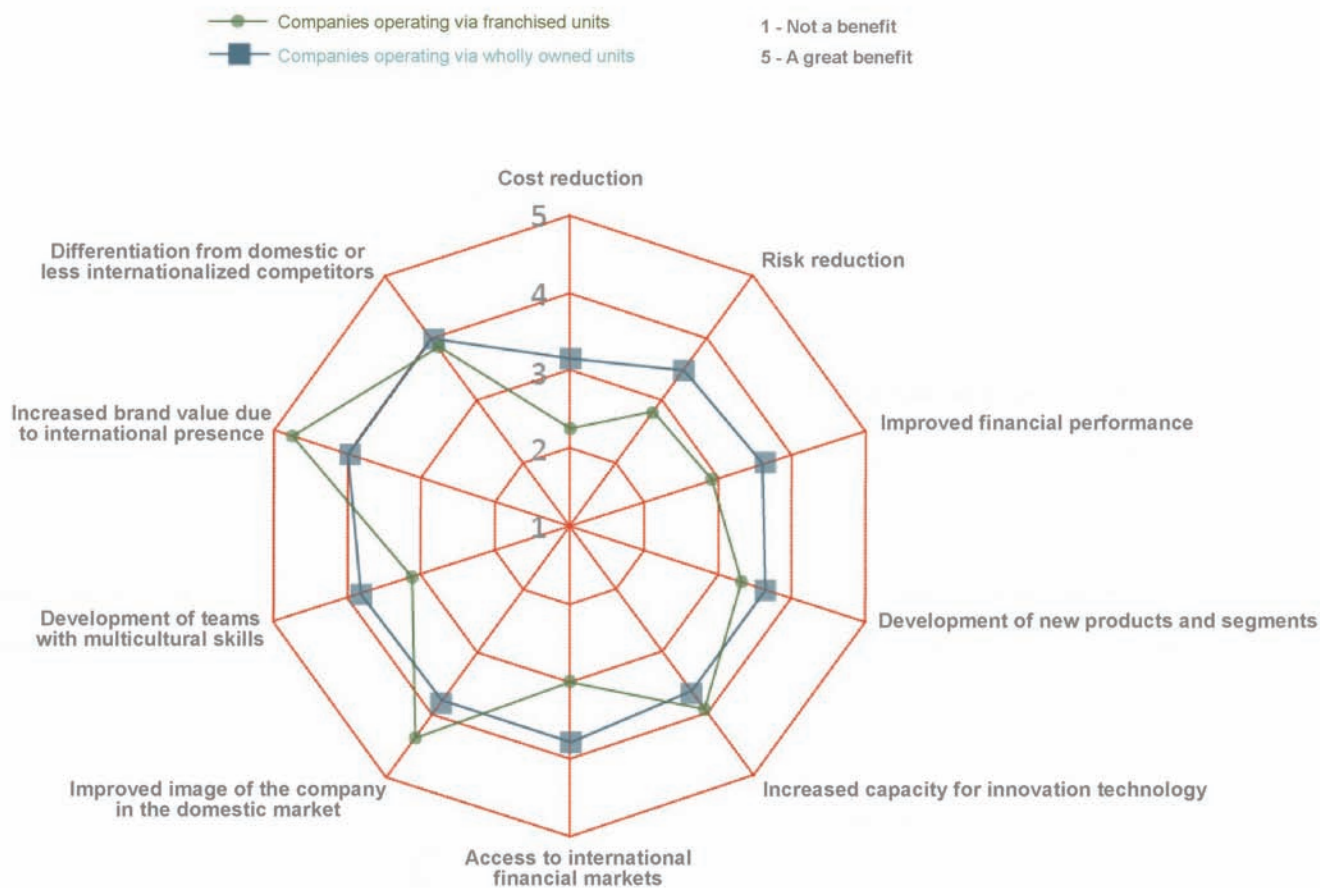


Figure 4
 Source: 2012 FDC Ranking of Brazilian Transnationals.

¹ Information provided by the participant companies.

There is a consensus among managers that, regardless of the type of presence adopted abroad, having an international subsidiary differentiates a company from its competitors.

Also, alternatives related to brand and image received the highest scores, especially among franchisers.

Our data shows clear differences between the two types of international operations. Unlike what happens with companies operating via wholly owned units abroad, in the franchising system, brand value plays a major role in companies' businesses, and, as a result, this is perceived as a major benefit for them.

On the other hand, issues related to financial results, risk reduction and development of teams with multicultural skills are perceived as more beneficial by managers with self-owned units than by managers operating internationally through franchises.

It is noteworthy that two of the alternatives presented in the questionnaire did not apply to companies whose major foreign operations were conducted through franchises. These alternatives were:

- Increased capacity to provide service for global clients;
- Access to overseas capital markets.

We believe that franchises commercialize their brand and know-how, but do not necessarily share their clients with their franchisees. For this reasons, we considered that increasing the capacity to serve global clients is not a potential benefit to franchisers.

In addition to this, the sampled companies that operate through franchises are, for the most part, limited societies with closed capital; therefore, the benefit of having access to capital markets outside of Brazil is not applicable to them.

THE BENEFITS OF INTERNATIONALIZATION FOR BRAZIL

Managers were asked to choose up to three of the alternatives on which of the following they considered to represent the major benefits of internationalization for Brazil.

Benefits of the Internationalization Process for Brazil

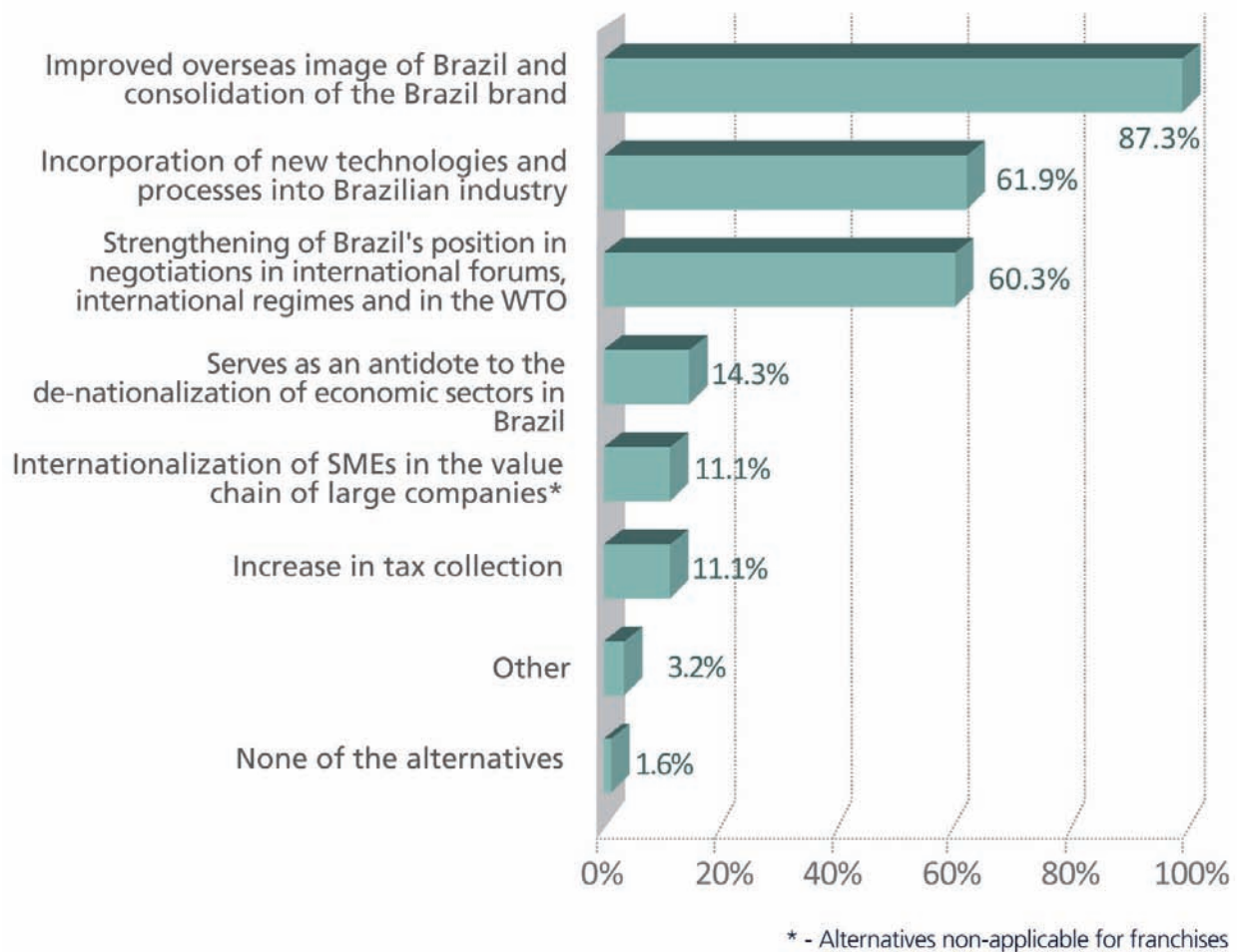


Figure 5
Source: 2012 FDC Ranking of Brazilian Transnationals.

This figure combines the perceptions of managers in the two samples. The numbers represent the percentage of interviewees that chose each one of the alternatives as one of the three most important benefits.

The *Improved overseas image of Brazil and consolidation of the Brazil brand* alternative received the highest score as a benefit for the country, while the increase in tax collection was scored by only 11.1% in the sample.

It is also worth to mention two perceptions spontaneously described by interviewees in the “other” alternative:

1. Risk reduction by not being exposed to only one consumer market;
2. The presence of the organization in international markets enables price competition with overseas competitors who also operate in Brazil.

To further the analysis, we developed the following figure, which compares the answers of each one of the samples:

Benefits of Internationalization for Brazil

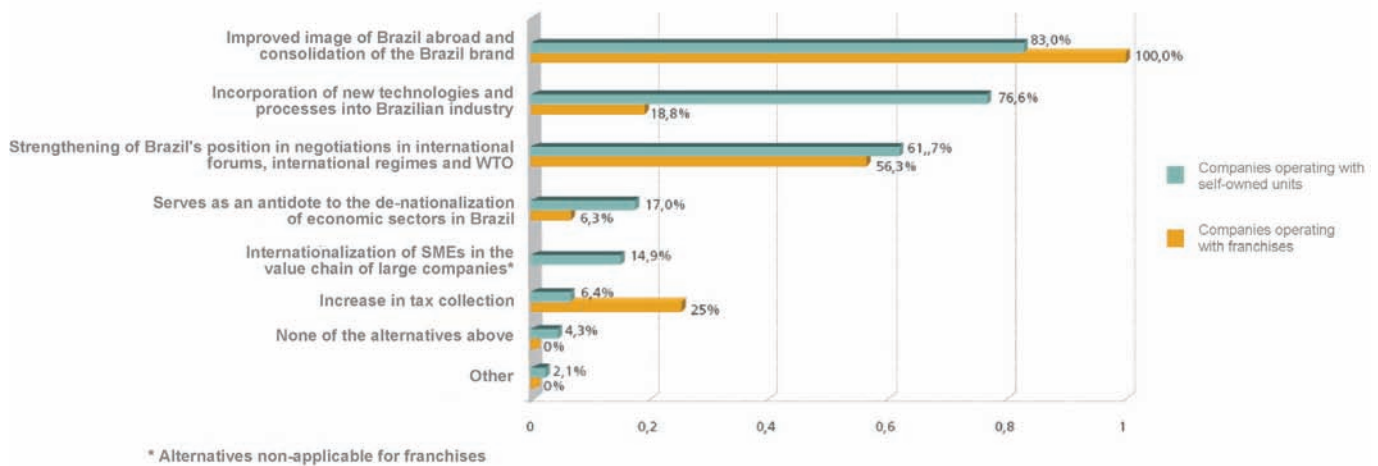


Figure 6
Source: 2012 FDC Ranking of Brazilian Transnationals.

As expected, there is a great contrast of opinions between samples concerning the incorporation of new technologies into the Brazilian industry, since, in the majority of the cases, companies that operate via wholly owned units are from the manufacturing sector and the companies that operate with franchises are from the service sector.

Furthermore, it is possible that companies that choose internationalization by means of wholly owned subsidiaries are greatly exposed to technologies and are more interested in bringing them to Brazil in order to add value to their production processes

On the other hand, franchisers in the home country seem to be less exposed to innovations in the host country. Thus, despite the interest in adding new technology to their businesses, the franchisor is less aware of this benefit to Brazil.

Confirming our initial assumptions, the data reinforces, once more, the differences and peculiarities of each type of overseas operation.

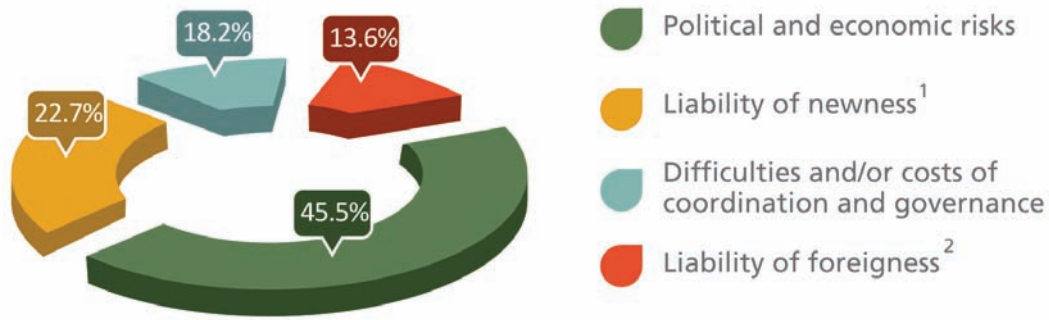
Note that one of the alternatives was not applicable to the franchise sample: "Internationalization of SMEs in the value chain of large companies". In this project, we assumed that the entry of franchisers into international markets is made by identifying possible franchisees, with little or no influence on other companies in their value chain.

CHALLENGES AND IMPACTS OF INTERNATIONALIZATION

We asked the managers to rank the main challenges faced by their companies regarding internationalization, one being the factor with the lowest impact, and 4 being the highest impact in the company's results.

The following figure shows the percentage of companies that evaluated the alternative as 4.

Main Challenges of Internationalization



1 - Costs with local facilities, hiring staff and negotiating with local suppliers, obtaining access to distribution channels and creating a client base.
 2- Possible discrimination against foreign companies, difficulty to adapt to norms and laws, lack of knowledge and difficulty in dealing with market and cultural contexts different from their country of origin.

Figure 7

Source: 2012 FDC Ranking of Brazilian Transnationals.

Note that 81.8% of the companies indicated that the major challenges of internationalization are comprised of factors outside of the company. Political and economic risks, liability of newness and liability of foreignness are hardships that are beyond a corporations' internal control.

Only 18.2% of the managers perceived difficulties or management costs as being a major challenge in this process.

Localiza, for example, had to adapt to different legislation when it established new franchises abroad. The company reported that differences between national and international legislations had to be carefully understood to avoid hampering the establishment of a Localiza store with the franchise standards of the franchise.

Even when aware of the challenges, the majority of the companies in the sample (67.7%) claims that the benefits outweigh the risks or negative impacts of internationalization, as shown in the following Figure:

Impacts of Internationalization

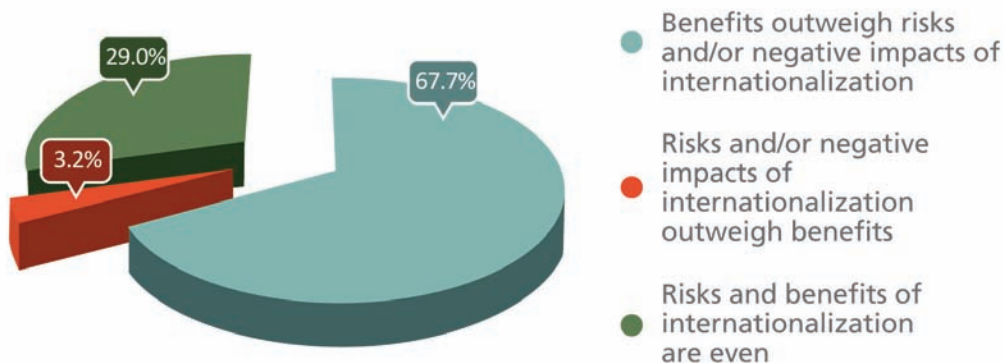


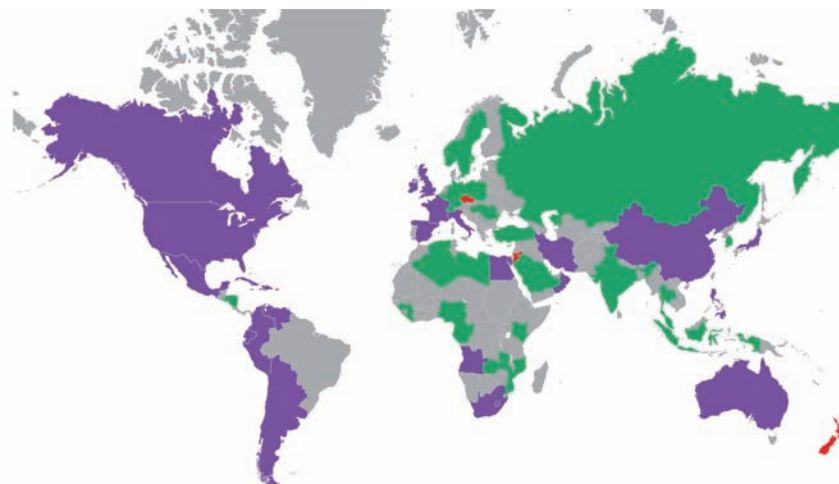
Figure 8

Source: 2012 FDC Ranking of Brazilian Transnationals.

BRAZILIAN PRESENCE IN THE WORLD

The study found that there are Brazilian multinationals in nearly 90 countries around the world. The following map shows the countries where Brazilian companies are physically established, either via wholly owned units or franchises. We did not list countries where operations occur solely by means of exports.

Geographical Dispersion of Brazilian Multinationals



Brazil's presence abroad	Number of countries
● Only by means of franchises	4
● Only by means of self-owned units	48
● By means of wholly owned units and franchises	37
Total number of countries where Brazilian companies are present	89

Figure 9

Source: 2012 FDC Ranking of Brazilian Transnationals.

Geographical Dispersion of Brazilian Transnationals

North America: Canada Mexico USA	Colombia Ecuador Paraguay Peru Uruguay Venezuela	Sweden Switzerland Turkey Wales	Asia: Arab Emirates Bahrain China India Indonesia Iran Israel Japan Jordan Kazakhstan Kuwait Lebanon Malaysia Mongolia Oman Philippines Qatar Russia Saudi Arabia Singapore South Korea Thailand
Central America: Antigua Barbados Bermuda Cayman Islands Costa Rica Cuba Curacao Dominican Rep. El Salvador Guadalupe Guatemala Honduras Nicaragua Panama Porto Rico	Europe: Austria Belgium Czech Rep. Denmark England France Germany Hungary Ireland Italy Luxembourg Netherlands Norway Poland Portugal Romania Spain	Africa: Algeria Angola Cameroon Congo Egypt Gabon Guinea Guinea Conakry Kenya Liberia Libya Malawi Mozambique Nigeria South Africa Zambia	Oceania: Australia New Caledonia New Zealand
South America: Argentina Bolivia Chile			

Figure 10

Source: 2012 FDC Ranking of Brazilian Transnationals.

Brazilian multinationals are present in the world's leading economies. The combined GDP of the 89 countries where Brazilian companies operate is of approximately US\$ 66,628.35 billion². In other words, these countries represent 95.0% of the world's GDP.

For the purposes of this study, physical presence of companies may be by means of commercial subsidiaries (sales offices, warehouses and distribution centres), production facilities (manufacturing, assembly, services, banking agencies, research and development) or franchises. It is important to note that in some cases the company operates with a single international subsidiary providing services for more than one country in the region.

The energy company Eletrobras, for example, has three subsidiaries responsible for different regions. The Andes branch, in Peru, provides energy mostly to Chile, Ecuador, Colombia, Venezuela and parts of Central and North America. The Southern Cone Branch, in Uruguay, is responsible for businesses in Paraguay, Uruguay, Argentina and Chile. The company also has the Central American and a Caribbean branch, located in Panama City³.

Although exports are not counted in this study, this type of foreign operation represents an important strategy for the first stages of international expansion.

Via Uno, for instance, has franchised stores in more than twenty countries, and reinforces its international operations with exports for over one hundred countries all over the world⁴.

The following Figure shows the percentage of Brazilian companies with operations in each continent:

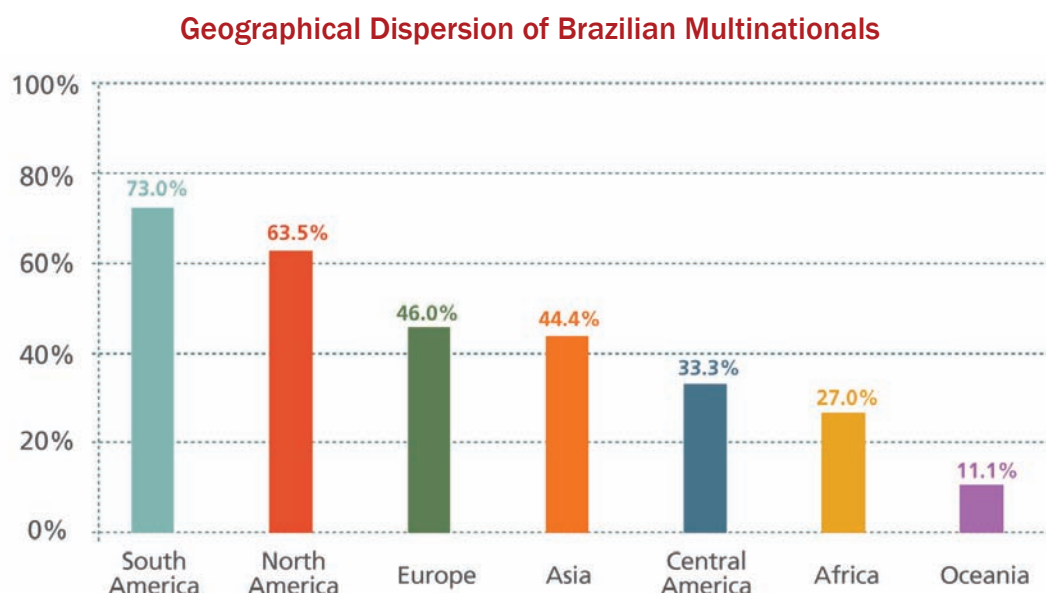


Figure 11
Source: 2012 FDC Ranking of Brazilian Transnationals.

SOUTH AMERICA

As shown in the Figure, 73.0% of participant companies have operations in South American countries. Geographical and cultural proximity encourages Brazilian companies to invest in countries in this region. It is important to note that operational costs in South America are reduced for Brazilian companies due to lower costs for transporting raw materials, products and even people. In addition, there are several cooperation agreements which facilitate commercial relationships between these countries.

² International Monetary Fund: <http://www.imf.org/external/>

³ Research data and www.eletrobras.com

⁴ Research data and from www.viauno.com

The insurance company Porto Seguro, for example, operates exclusively in Uruguay and is already the second largest automobile insurance company in the country⁵.

In Argentina and Peru, Natura is among the three preferential brands by consumers of personal hygiene products, perfumes and cosmetics⁶.

In addition, over the last year, South American market had the largest number of new investments from Brazilian companies, with Argentina and Chile among the two countries that most attracted Brazilian multinationals.

NORTH AMERICA

North America is the second region with the largest number of Brazilian companies. Almost forty percent of participant multinationals have operations in the USA, while Mexico is right behind, with presence of 35.0% of the companies.

EUROPE

Portugal is the country with the largest number of Brazilian companies that have operation in Europe, 22.0%. Possibly, the language and the cultural proximity encourages the internationalization of Brazilian companies in this country. Right behind is England, with 20.6% of Brazilian firms.

ASIA

Considering the cultural and geographical distance, Brazil's presence in Asia is quite large, with 44.4% of Brazilian companies in the continent, China and Japan are among the main destinations of Brazilian investments. New business opportunities in Asia are encouraging Brazilian multinationals to expand in this region. In 2011, companies from diverse industries, such as Andrade Gutierrez, Petrobras, Banco do Brasil, Fábrica di Chocolate, Via Uno and Yogoberry expanded to Asia⁷.

In order to increase its presence in the Chinese market and to explore its growing opportunities, Marfrig established two joint ventures in China. One of them, Keystone-Chinwhiz (60% Keystone – 40% Chinwhiz), expects to establish an integrated vertical chain of poultry and estimates processing approximately 200 thousand birds/day. In addition, Marfrig was the first Brazilian company to obtain the necessary permits to ship pork products to China⁸.

Moreover, Metalfrío is investing in the expansion of a plant in Russia, which will shelter the company's new line of vertical refrigerators and plans to begin its production in the second semester of 2012⁹.

CENTRAL AMERICA

In Central America, Panama is the country with the largest percentage of Brazilian companies (15.9%). Right behind is Dominican Republic with 9.5%. Three companies invested for the first time in Central America in 2011: Eletrobras and Emagrecentro established units in Panama, and the Spoleto started a franchise Costa Rica¹⁰.

⁵ Qualitative information provided by the company.

⁶ Qualitative information provided by the company.

⁷ Research Data.

⁸ Information provided by the company.

⁹ Information provided by the company.

¹⁰ Research Data.

AFRICA

It is interesting to note that despite the geographical distance between Brazil and Africa, and despite the political and economic instability in certain countries of the continent, there are several Brazilian companies established in the region.

Brazilian companies are in 16 of the 54 African countries. Angola and South Africa are the countries with the largest number of Brazilian multinationals. With respectively 14.0% and 9.5% of presence in each country.

One of the largest Brazilian multinationals in the continent is Randon, which, in 2011, celebrated 1,500 CKD products assembled in Kenya. Since 2005, RT East Africa is the manufacturer and distributor of Randon's CKD units in Kenya, Uganda, Burundi and Tanzania, where the company runs a fleet of implements for dumper truck models, tanks, platforms and containers. Besides assembling and distributing implements, RT also provides services and commercializes spare parts, with outlets in Nairobi and in the port city of Mombasa. The company is part of the Multiple Group of Companies with operations in several segments in Eastern region of Africa, focused on logistics and transport sectors¹¹.

However, according to managers, the Libyan crisis seems to have affected some of the multinationals established in the continent. Large companies such as Andrade Gutierrez and Petrobras decided to temporarily interrupt their activities in this country¹².

OCEANIA

There is a smaller Brazilian presence in Oceania, where there are only 11.1% of companies established. They are located in three of the 14 countries of the continent. And as expected, Australia is the main destination.

The Brazilian franchisor Fábrica di Chocolates has a unit in New Zealand and is present in other ten countries¹³. Vale, the company in most countries among the sample (38), has operations in New Caledonia, an archipelago of Oceania located in the Pacific Ocean, 1,500km east of Australia and 2,000 km north of New Zealand¹⁴.

The following figure shows a comparison between companies with wholly owned subsidiaries and franchisers' presence in each continent.

While in both cases South America is the sub-continent with the largest number of Brazilian operations, Europe and Asia seem to be more popular among companies operating via wholly owned subsidiaries than by franchising companies.

During the year of 2011, Banco do Brasil, for example, revised its operations in Europe, improving the existing governance structure and consolidating the implementation of BB Europa Servicing Centre, located in Portugal, as a support for their businesses in Europe. BB also maintained one of their branches and their securities brokerage firm, the BB Securities Ltd., in London¹⁵.

¹¹ Information provided by the company.

¹² Information provided by the company.

¹³ Research data.

¹⁴ Research Data.

¹⁵ Information provided by the company.

Geographical Dispersion: Wholly Owned Units vs. Franchises

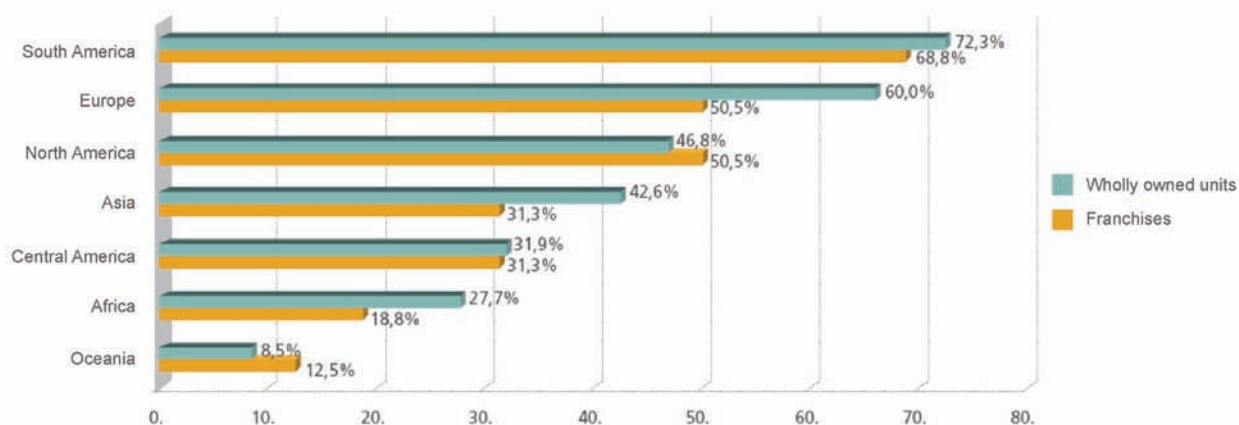


Figure 12
Source: 2012 FDC Ranking of Brazilian Transnationals.

ENTRIES AND EXITS OF COMPANIES IN COUNTRIES

The following Figure lists the percentage of companies entering new markets in 2011, taking into account the distribution per continent. Twenty-four of the 63 participant companies invested in new countries, the two main destination being South America and Asia: combined, these countries attracted 53.0% of the participating companies.

Entries in 2011 per Continent

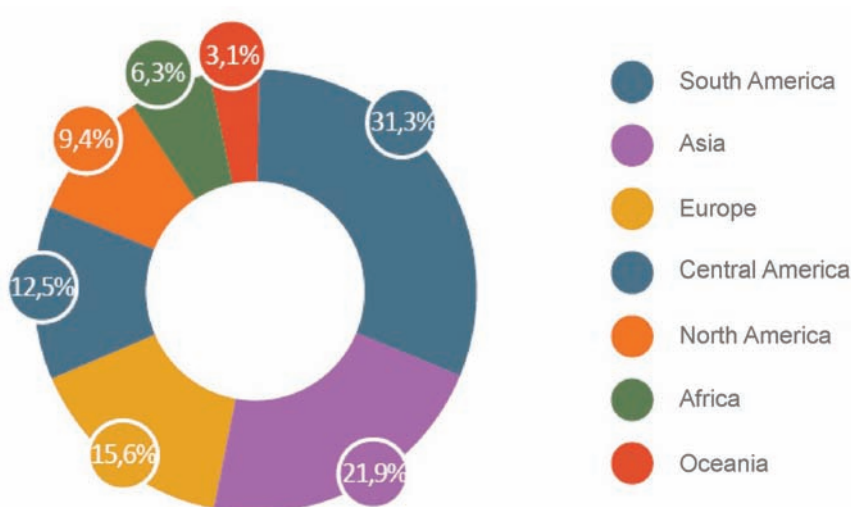


Figure 13
Source: 2012 FDC Ranking of Brazilian Transnationals.

Note that some multinationals established subsidiaries in more than one new country. On the other hand, some left or interrupted their operations in countries where they used to operate in 2010. The Figures 14 and 15 below show details of entries and exits:

Entries of Companies in New Countries in 2011

Company	Country
Alusa	Colombia
Andrade Gutierrez	Qatar
Banco do Brasil	Singapore
Ci&T	Argentina
Cia. Providência	USA
Eletronbras	Panama
Emagrecentro	Kuwait, Arab Emirates, Portugal and Argentina
Fábrica di Chocolate	Bolivia
Fisk Centro de Ensino	Chile
Hering	Colombia and Peru
Itaú - Unibanco	Chile
Localiza	Australia
Marcopolo	Uruguay
Minerva	Germany
Odebrecht	Benin
Petrobras	Canada
Showcolate	Costa Rica
Stefanini IT Solutions	Thailand
Tam	China and Mexico
Ultrapar	Colombia
Via Uno	Czech Republic, Lebanon, Egypt and Curacao
Weg	Austria
Yogoberry	Iran

Figure 14
Source: 2012 FDC Ranking of Brazilian Transnationals.

Exits or Temporary Interruptions of Operation in Countries in 2011

Companies	Country
Andrade Gutierrez	Libya
Gol	Colombia
Marisol	Chile
Petrobras	Libya and Iran
Showcolate	Honduras
TOTVS	Mexico and Portugal
Via Uno	Kuwait, Arab Emirates, Portugal and Argentina

Figure 15
Source: 2012 FDC Ranking of Brazilian Transnationals.

A detailed analysis shows that Brazilian companies are not only present mostly in South America, but also tend to choose this sub-continent as the main destination for their first foreign investment. The following figure shows a strong tendency among participant companies to start their internationalization processes in South American countries. Most of them, 56.7%, had their first international subsidiaries established in this region.

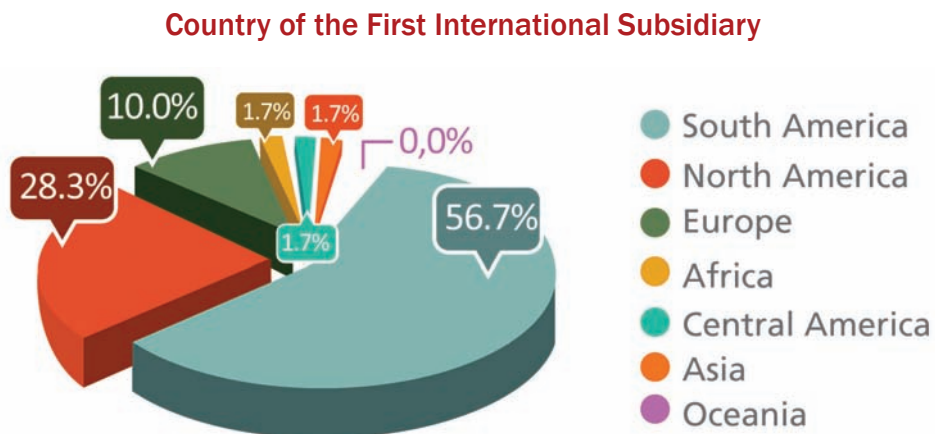


Figure 16
 Source: 2012 FDC Ranking of Brazilian Transnationals.

Tigre, for instance, concentrates its operations mainly in Latin America. According to the multinational, some countries have a GDP growth superior to Brazil and lower interest rates, what makes these markets very attractive for new investments¹⁶.

Even though there is an evident tendency to establish subsidiaries in Latin America at the beginning of the internationalization process, some companies follow a different path of expansion, Yogoberry, for instance, opened its first foreign franchise in 2011 in Iran¹⁷.

¹⁶ Information provided by the company.

¹⁷ Research Data.

2012 Ranking of Brazilian Transnationals

<i>Position</i>			<i>Position</i>		
	<i>Ranking by the transnationality index</i>	<i>Index</i>		<i>Ranking by the transnationality index</i>	<i>Index</i>
1	JBS-Friboi	0.538	26	Petrobras	0.082
2	Gerdau	0.516	27	Minerva	0.065
3	Stefanini IT Solutions	0.464	28	Bematech	0.045
4	Metalfrio	0.452	29	Banco do Brasil	0.043
5	Marfrig	0.444	30	BRQ IT Services	0.040
6	Ibope	0.438	31	Alusa	0.036
7	Odebrecht	0.424	32	Bradesco S.A	0.034
8	Sabó	0.363	33	Ultrapar	0.033
9	Magnesita	0.361	34	Gol	0.030
10	Tigre	0.298	35	Randon	0.024
11	Suzano Papel e Celulose	0.283	36	Eliane	0.024
12	Vale	0.278	37	Totvs	0.020
13	Weg	0.246	38	Tam	0.020
14	Brasil Foods	0.238	39	DHB	0.012
15	Ci&T	0.195	40	Porto Seguro	0.008
16	Artecola	0.194	41	Oi	0.004
17	Embraer	0.173	42	Tegma	0.003
18	Camargo Corrêa	0.165	43	Seculus	0.002
19	Marcopolo	0.149	44	Cemig	0.001
20	Agrale	0.130	45	Portobello	0.001
21	Andrade Gutierrez	0.123	46	Eletróbrás*	0.000
22	Natura	0.119	47	M.Dias Branco*	0.000
23	Cia Providência	0.107			
24	Itaú - Unibanco	0.100			
25	América Latina Logística	0.091			

*Transnationality index inferior than 0.001

Figure 17

Source: 2012 FDC Ranking of Brazilian Transnationals.

In the 2012 FDC Ranking of Brazilian Transnationals, in addition to the traditional transnationality Ranking presented, some specific classifications were created, taking into account other criteria. They are:

COMPANIES WITH REVENUES OF UP TO R\$1 BILLION

Metalfrio, Ibope and Sabó are the leaders in the internationalization ranking among the multinationals with up to R\$1 Billion in revenue in 2011.

Ranking by up to R\$1 Billion in revenue

Ranking of Brazilian transnationals with up to R\$1 billion in total revenues - by the transnationality index		
Position	Company	Transnationality index
1	Metalfrio	0.452
2	Ibope	0.438
3	Sabó	0.363
4	Ci&T	0.195
5	Artecola	0.194
6	Agrale	0.130
7	Cia Providência	0.107
8	Bematech	0.045
9	BRQ IT Services	0.040
10	Eliane	0.024

Figure 18
Source: 2012 FDC Ranking of Brazilian Transnationals.

In 2011, Metalfrio acquired 29.0% of the social capital of the Turkish company Senocak, on a value of €15.8 million Euro¹⁸.

RANKING BY THE NUMBER OF COUNTRIES WHERE COMPANIES HAVE SUBSIDIARIES

Vale is the multinational with subsidiaries in most countries (38), followed by Stefanini (26) and Odebrecht (25).

¹⁸ Information provided by the company.

2012 Ranking of the most transnationalized Brazilian multinationals - by number of countries where they operate

Position	2012 Ranking of the most transnationalized Brazilian multinationals - by number of countries where they operate	Number of countries*
1	Vale	38
2	Stefanini IT Solutions	26
3	Odebrecht	25
4	Banco do Brasil	24
5	Marfrig	21
5	Weg	21
6	Brasil Foods	20
6	Marcopolo	20
7	Gerdau	19
8	Magnesita	18
9	Andrade Gutierrez	17
9	Camargo Corrêa	17
9	Itaú - Unibanco	17
10	JBS-Friboi	16

* Does not include Brazil

Figure 19
Source: 2012 FDC Ranking of Brazilian Transnationals.

RANKING BY REVENUE INDEX

The following figure shows the classification of companies by revenue index.

2012 Ranking of the most transnationalized Brazilian companies - by revenue index

Position	2012 Ranking of the most transnationalized Brazilian companies - by revenue index	Revenue index
1	JBS-Friboi	0.732
2	Suzano Papel e Celulose	0.697
3	Gerdau	0.524
4	Magnesita	0.481
5	Marfrig	0.470
6	Sabó	0.420
7	Metafrio	0.398
8	Odebrecht	0.396
9	Weg	0.375
10	Stefanini IT Solutions	0.360

Source: 2012 FDC Ranking of Brazilian Transnationals

Figure 20
Source: 2012 FDC Ranking of Brazilian Transnationals.

RANKING BY ASSETS INDEX

The following figure shows the classification of companies by the assets index.

2012 Ranking of the most transnationalized Brazilian companies - by assets index

Position	2012 Ranking of the most transnationalized Brazilian companies - by assets index	Assets index
1	Stefanini IT Solutions	0.612
2	Gerdau	0.573
3	Marfrig	0.482
4	Ibope	0.478
5	Vale	0.478
6	Metalfrio	0.455
7	Odebrecht	0.437
8	Tigre	0.428
9	Magnesita	0.397
10	Brasil Foods	0.360

Figure 21

Source: 2012 FDC Ranking of Brazilian Transnationals.

RANKING BY EMPLOYEES INDEX

The following figure shows the classification of companies by employees index.

2012 Ranking of the most transnationalized Brazilian companies - by employees index

Position	2012 Ranking of the most transnationalized Brazilian companies - by employees index	Employees index
1	JBS-Friboi	0.621
2	Ibope	0.526
3	Metalfrio	0.503
4	Gerdau	0.451
5	Odebrecht	0.440
6	Stefanini IT Solutions	0.419
7	Sabó	0.386
8	Marfrig	0.380
9	Tigre	0.251
10	Vale	0.213

Figure 22

Source: 2012 FDC Ranking of Brazilian Transnationals.

2012 INTERNATIONALIZATION RANKING OF BRAZILIAN FRANCHISES

2012 Internationalization Ranking of Brazilian Franchises

Position

2012 Internationalization Ranking of Brazilian Franchises - by the internationalization index		Index
1	Via Uno	0.183
2	Fábrica di Chocolate	0.121
3	Showcolate	0.109
4	LinkWell	0.074
5	Localiza	0.072
6	Fisk Centro de Ensino	0.036
7	Spoletto	0.032
8	Bit Company	0.018
9	Hering	0.014
10	Arezzo	0.014
11	DepylAction	0.013
12	Wizard	0.008
13	Marisol	0.008
14	Yogoberry	0.003
15	Emagrecentro	0.003
16	Giraffas	0.001

Figure 23
Source: 2012 FDC Ranking of Brazilian Transnationals.

RANKING BY THE NUMBER OF COUNTRIES WHERE THE COMPANIES HAVE FRANCHISE UNITS

The following figure shows the classification of franchises by the number of countries in which they operate.

2012 Internationalization Ranking of Brazilian Franchises - by number of countries

Position	2012 Internationalization Ranking of Brazilian Franchises - by number of countries	Number of countries*
1	Via Uno	23
2	Showcolate	13
3	Fábrica di Chocolate	11
4	Wizard	9
5	Localiza	8
6	Fisk Centro de Ensino	6
7	Hering	5
8	Arezzo	4
9	Spoletto	3
10	LinkWell	2
10	Marisol	2

* Does not include Brazil

Figure 24
Source: 2012 FDC Ranking of Brazilian Transnationals.

RANKING BY FRANCHISED UNITS INDEX

The following figure shows the classification of franchised units index.

2012 Internationalization Ranking of Brazilian Franchises – by franchised units index

Position	2012 Internationalization Ranking of Brazilian Franchises – by franchised units index	Franchised units index
1	Via Uno	0.396
2	Showcolate	0.327
3	Fábrica di Chocolate	0.317
4	Localiza	0.189
5	Fisk Centro de Ensino	0.107
6	LinkWell	0.091
7	Spoletto	0.085
8	Bit Company	0.053
9	Hering	0.030
10	Wizard	0.025

Figure 25

Source: 2012 FDC Ranking of Brazilian Transnationals.

In the qualitative research, some Brazilian franchisers pointed that they were investing in the internationalization of their brands, with optimistic expectations of growing abroad. Therefore, we highlight the example of two particular companies:

- In 2012, Fábrica Di Chocolate invested in markets, materials, franchising websites and business presentations, in English and Spanish, to attract the attention of new investors and increase international expansion¹⁹.
- Wizard established a master franchise in Angola, which increases growth opportunities in the African region. In addition, the brand's consolidation in China expanded their business and educational expertise, and the company hopes that this will result in growth in this market. Furthermore, new units in the United States and in Costa Rica are opening doors to North and Latin American markets²⁰.

PERFORMANCE OF BRAZILIAN MULTINATIONALS

Profit Margins

Over the last three years, the profit margins of Brazilian multinationals were higher in the domestic market than in international markets. This could be a consequence of recent crises and political and economic uncertainties in the global market.

¹⁹ Information provided by the company.

²⁰ Information provided by the company.

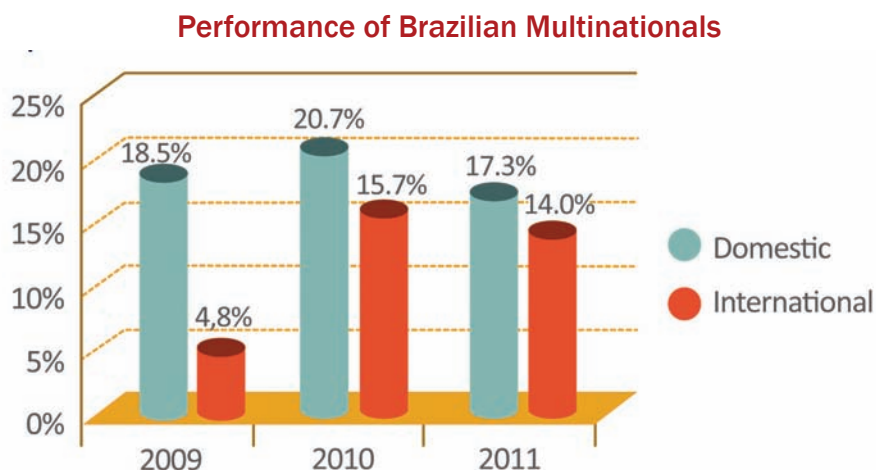


Figure 26
 Source: 2012 FDC Ranking of Brazilian Transnationals.

It is interesting to note that the differences between the domestic and the foreign markets have been reduced. Brazilian companies have managed to achieve positive results abroad, which were in fact close to the ones in Brazil.

For Gerdau, the economic recovery of international markets has helped reaching positive results abroad²¹.

Artecola also mentioned improvements in sales performance of their subsidiaries in Argentina, Chile, Colombia, Mexico and Peru²².

Finally, Randon, through its Fras-le subsidiary, also noted increases in foreign sales, improving the company's results, especially in the first half of 2011. That contributed to overcome the effects of the devaluation of North American currency²³.

SATISFACTION WITH PERFORMANCE

We compared the perceptions of managers regarding domestic versus international markets. We asked them to rank, in a scale range of 1 to 5, regarding satisfaction with performance. The results are shown in the following figure:

²¹ Information provided by the company.

²² Information provided by the company.

²³ Information provided by the company.

Satisfaction of Transnationals with Performance

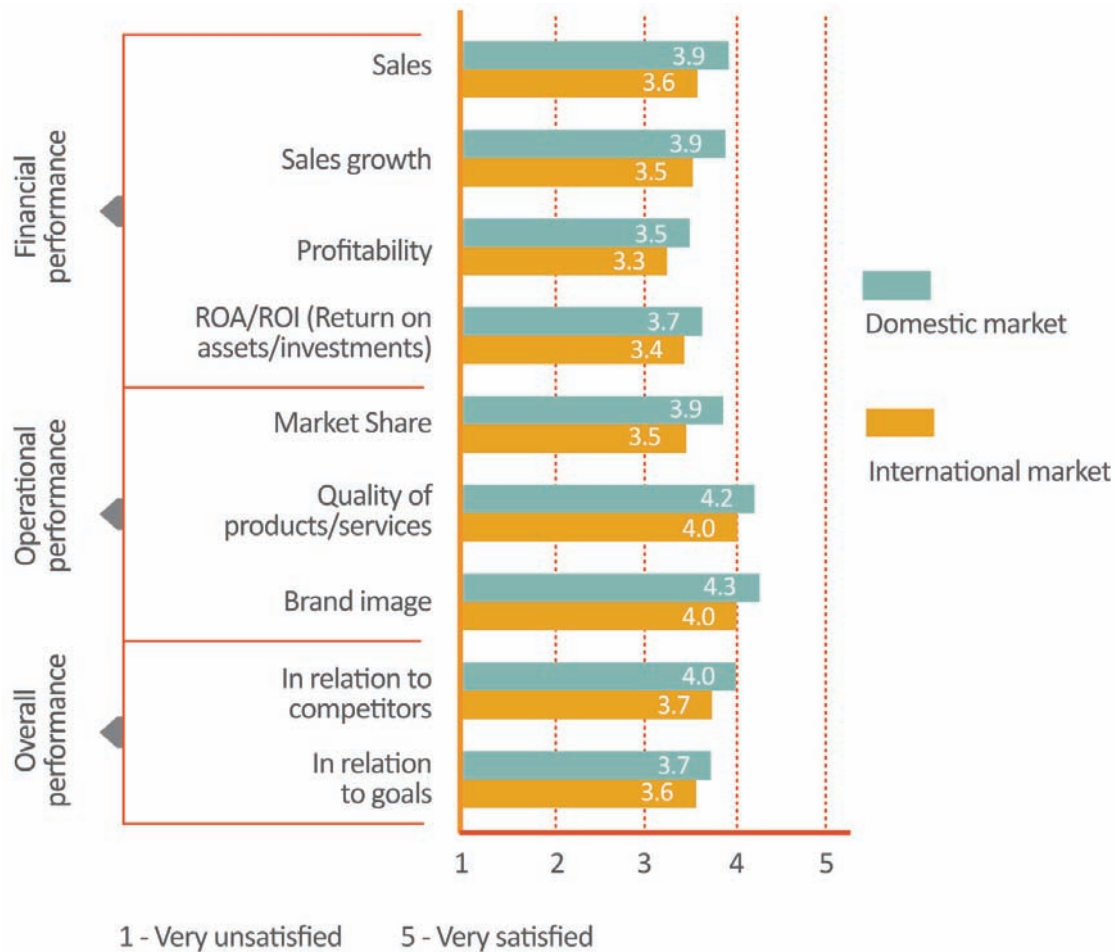


Figure 27
Source: 2012 FDC Ranking of Brazilian Transnationals.

As expected, Brazilian transnationals are more satisfied with domestic than international performance. However, the differences seem to be very small.

Localiza, for instance, reduced the number of branches and focused on cities that represent at least 80.0% of the GDP of each country. Yet, the company's international franchise operations have achieved a 66.5% business growth. The brand is today the leader in four of the nine countries in which it operates²⁴.

EVOLUTION AND TRENDS OF INTERNATIONALIZATION OF BRAZILIAN MULTINATIONALS

Timeline of internationalization of Brazilian multinationals

Brazilian companies that were interviewed began their internationalization processes in the 1940's. However, this movement only intensified on the 1970's, reaching its peak in the 1990's and 2000's. This is demonstrated in the following timeline, which shows the year and country in which the first international subsidiaries were established.

²⁴ Information provided by the company.

Timeline

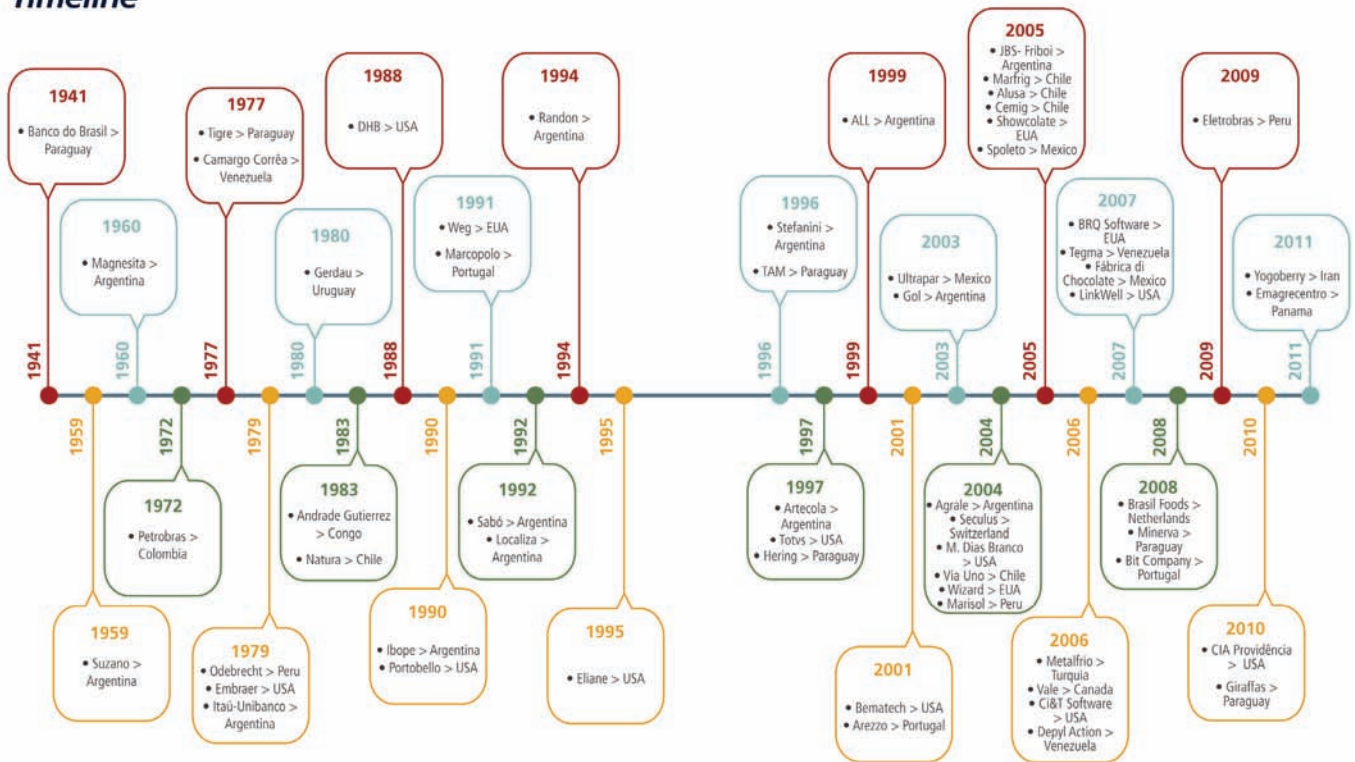


Figure 28
Source: 2012 FDC Ranking of Brazilian Transnationals.

In another analysis, we found that companies that have been in international market for a longer period tend to perceive more clearly the benefits of this process:

Impact of Internationalization vs. Year of the First International Operation

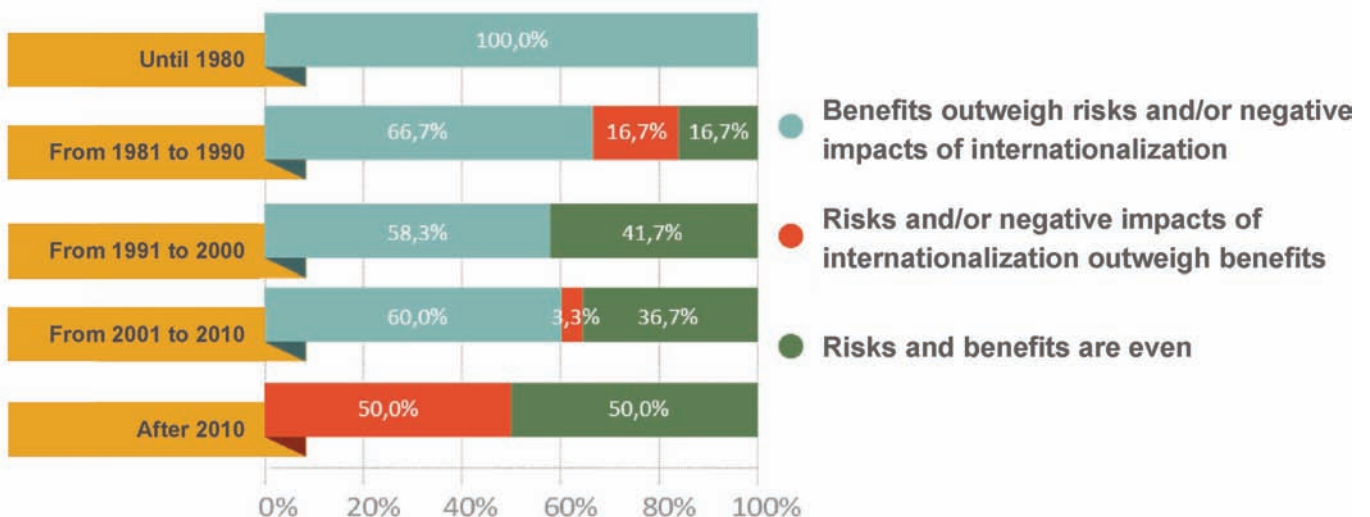


Figure 29
Source: 2012 FDC Ranking of Brazilian Transnationals.

Evolution of the internationalization index over the last three years

Brazilian multinationals have been gradually increasing the internationalization index, especially in regards to assets. The revenue and the employee index (foreign/totals) show a little change although it can be considered stable.

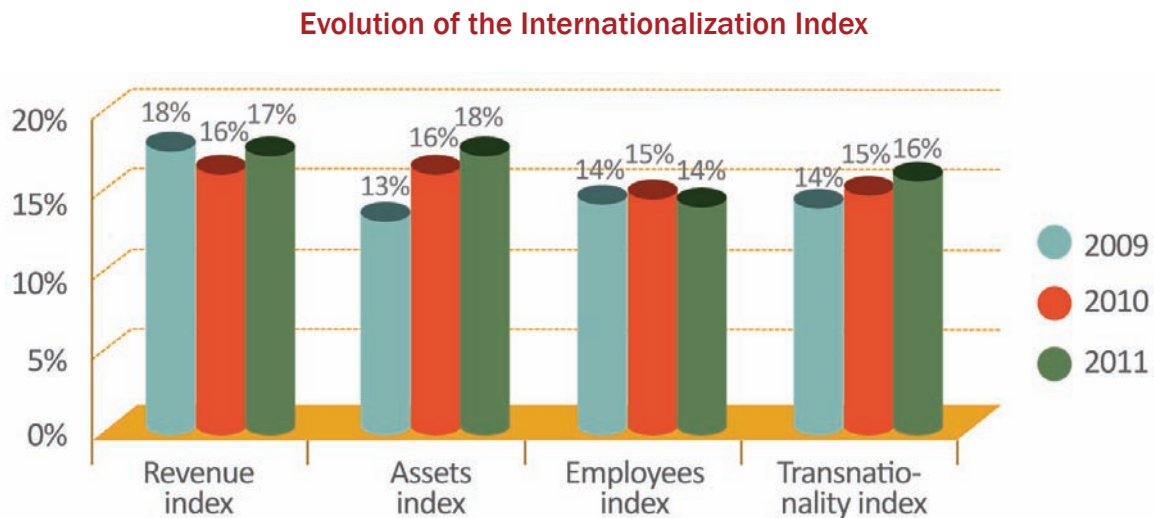


Figure 30
Source: 2012 FDC Ranking of Brazilian Transnationals.

The evolution of Itaú-Unibanco is noticeable, with a 35.7% growth in their foreign revenues, 25.0% in their foreign assets and 9.8% in their foreign employees. Today, the company is the most internationalized Brazilian bank, in terms of the transnationality index, with approximately 10.0% of their operations outside of Brazil²⁵.

International expansion plans for 2012

The companies shared information about their international strategies in 2011 and plans for 2012.

Bradesco invested in remodelling and expanding its Bradesco Securities facilities in New York and London²⁶.

Still in 2011, TOTVS changed part of its operations in Mexico and in Portugal for third party channels, to meet their clients' needs and to expand their operations in these countries at a lower fixed cost²⁷.

Ci&T Software, this year, is focused on growing their client base in China and in Argentina²⁸.

In 2011, IBOPE Media, from the IBOPE group, unified and aligned their structures in the 14 countries where they operate, in attempt to increase international and strategic focus for their operations. During this process, they created a centralized holding company to implement a new organizational system and to strengthen operations in the markets they already serve. Moreover, IBOPE Inteligência solidified its international partnerships with important foreign players and expects to have positive results in 2012²⁹.

Statistics confirm such tendency: 60.9% of the companies said that they had expansion plans for markets where they already operate.

²⁵ Research Data.

²⁶ Information provided by the company.

²⁷ Information provided by the company.

²⁸ Information provided by the company.

²⁹ Information provided by the company.

Plans for Markets where Companies Already Operate

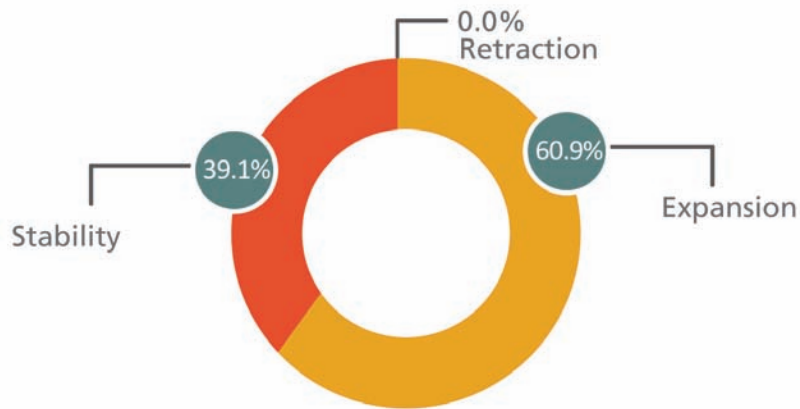


Figure 31
 Source: 2012 FDC Ranking of Brazilian Transnationals.

Yet, what are the plans of Brazilian multinationals regarding entries in new markets?

Let's take Stefanini IT Solutions as an example. Besides growing in Latin America and consolidating its business in the USA, the company began operations in Thailand in 2011 and intends to expand into Chinese and Philippine markets³⁰.

TAM announced that in 2012 it will be one of the largest airline groups in Latin America and in the world by merging with LAN Airlines. The company believes that creating this new group, which will keep both brands, will increase the quality and the scope of its services. The new holding company will have 310 airplanes, with passenger and cargo operations, for over 150 destinations in 23 countries. They will have almost 51 thousand employees in total³¹.

However, 72.3% of the multinationals do not plan to enter in new countries in 2012, as shown in the following graph:

Plans for Entries in New Markets

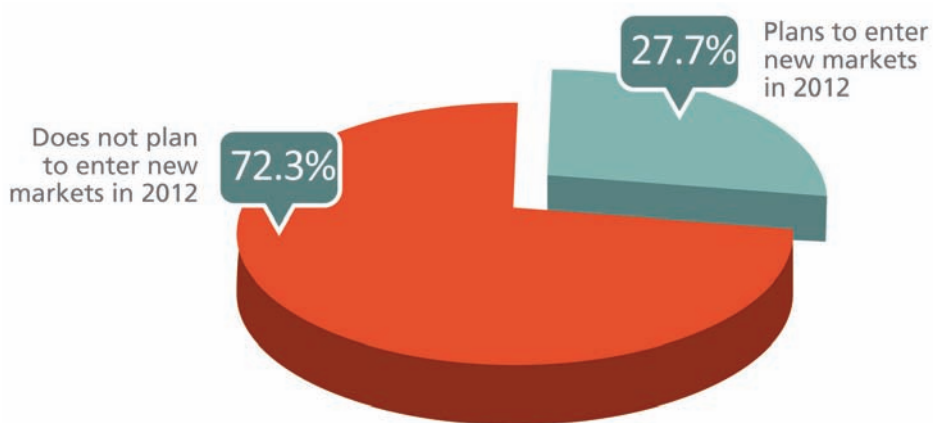


Figure 32
 Source: 2012 FDC Ranking of Brazilian Transnationals.

³⁰ Information provided by the company.
³¹ Information provided by the company.

The 27.7% of companies that have plans to enter new markets have target destinations countries such as China, India, Turkey, the USA and Latin American countries (with a focus on the Mercosul) and African countries (especially Mozambique).

PERFORMANCE EXPECTATIONS FOR 2012

We analyzed the performance expectations of participant companies regarding activities in 2012.

Even though the differences between perceptions is subtle when comparing domestic and international markets, the prevalent perception of Brazilian multinationals is they will perform better in terms of sales, market share and in relation to competitors in the domestic market than in international markets in 2012.



Figure 33
Source: 2012 FDC Ranking of Brazilian Transnationals.

FINAL CONSIDERATIONS

The purpose of this study was to understand the evolution of internationalization of Brazilian companies, their current status and the trends of Brazilian multinationals operations abroad. Furthermore, we tried to put in perspective the benefits of internationalization, both for companies and for Brazil.

It should be noted that the questionnaire of this study was conducted between March and May of 2012, a period marked by significant worldwide economic crises, which may have affected the perceptions shared by participant companies. Thus, it is not surprising that results in this edition show that managers are more cautious in their decisions regarding foreign investments.

However, we point out that over the last few years, the degree of internationalization of companies is gradually increasing. On one hand, market instabilities abroad are possibly hindering the entrance of Brazilian companies in new countries. On the other, we note a strong tendency for multinationals to plan expansions to countries where they are already established. Thus, the international scenario of uncertainties apparently is not decreasing international investments, but encouraging managers from companies of different sizes and industries to adopt safer alternatives for their expansion strategies.

All of the companies seem to be aware that internationalization is a complex process, which requires thoughtful strategic planning from leaders that decide to face these challenges. For this reason, making a hasty retreat in times of crises may not be the best solution, and companies seem to be seeking alternatives that minimize the risks of their investments.

Clearly, the benefits of internationalization outweigh the difficulties for the participant companies. The study showed that there are many benefits of internationalization and that companies are satisfied with their performance abroad.

The growth of international franchises is also a noticeable phenomenon. This seems to be a less risky alternative compared to strategies that require larger capital investments. Over the last few years, companies from different industries have established franchises agreements in many countries and are already achieving positive results.

Finally, foreign expansion tends to continue, either for Brazilian companies with wholly owned unit or for franchises. Performance expectations for 2012 are quite optimistic.

RESEARCH TEAM

Sherban Leonardo Cretoiu

- Professor and coordinator of the International Business Centre
- Master in International Relations, PUC Minas
- Specialist in Strategic Management and International Competitiveness, Universidade Federal de Minas Gerais
- Bachelor in Business Administration/International Commerce, Centro Universitário UNA
- sherban@fdc.org.br

Lívia Lopes Barakat

- Assistant Professor and Researcher of the International Business Centre
- Master in Business Administration, Universidade Federal de Minas Gerais
- Bachelor in Business Administration, Universidade Federal de Minas Gerais
- liviabarakat@fdc.org.br / (31) 3589-7449

Vanessa Silva Nogueira

- Researcher of the International Business Centre
- Master in Social Research, London Metropolitan University
- Specialist in CBA Marketing, Ibmec MG
- Bachelor in Journalism, Universidade Fumec
- vanessa.nogueira@fdc.org.br

Lucas de Medeiros Diniz

- Research Fellow at the International Business Centre
- Undergraduate student in Law and International Relations, PUC Minas
- lucas.diniz@fdc.org.br