BA 5320
Global Environment of Business

THE INTERNATIONAL

Final Project - Team #3

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TEXAS A&M INTERNATIONAL UNIVERSITY

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Two Products/Services

Coffee

- **Pros –** The primary reason we decided on coffee as one of the key products our firm would sell was due to the nearly universal demand and appreciation for coffee throughout the world. Most notably though was the increase in demand for coffee that we have noticed in the nations we are looking to enter. An article from the Allegra World Coffee Portal, a leading web publication that focuses on the changes in the global coffee market, the domestic specialty coffee market alone in Brazil is expected to reach roughly $1 billion US dollars for 2020 with total coffee bean consumption (sitting at 490,000 60kg bags) of domestic coffee products in the nation expected to double by this year, showing that this market is quickly accelerating in the region. This provides an opportunity for the firm to expand more easily should the company gain enough momentum from both a financial standpoint and a reputational one which should allow the company to grow in interest over the years, especially in BRIC nations where business is conducted from a variety of nations as more MNEs hope to enter these spaces, many of which fit the customer profile we are hoping to target (that being business professionals and busy workers looking for a quick pick me up). Coffee beans do not require extensive care during transportation, making the resource much easier to distribute to retail locations and store safely. Given the primary tasks that onsite locations will need to do to prepare a basic cup of black coffee is to grind the beans and pour over with hot water, the production process is relatively simple, which also allows for easier training of staff aside from the imparting of knowledge to create more specialty brews such as lattes, mochas and macchiatos which can be tailored to ensure our brews stand out from the rest and meet customer demands if cultural differences prefer one product type over another which makes adapting to local tastes easier as well with a generally low cost of labor.

- **Cons –** Although coffee provides a means of entry into a prevalent and lucrative industry, it is also a competitive one, even in markets where the commodity is just gaining traction as initial competitors will be plentiful during this time, at least until the market sets a preference towards a select set of firms. With an abundance of suppliers in the region, although this should make the act of acquiring coffee beans much easier, local tastes and demands have been calling for more specialty domestic coffee products that proudly label such products based on where the coffee was obtained from as locally sourced coffee is seen as more desirable in the eyes of local consumers. The Allegra World Coffee Portal states that for those looking to enter the domestic coffee industry in Brazil, it is essentially mandatory for single origin coffees to state the farmer, farm and location of where said coffee is produced as the Brazilian consumer market shifts heavily towards domestically produced coffee related goods, meaning that establishing strong working relationships with local farmers and coffee bean suppliers will be an ongoing task for the firm but if this is done quickly, the firm could see several first mover advantages in partnering with these suppliers before more foreign chains enter. Not only will the firm have to establish itself as a brand dedicated towards the use of locally sourced coffee, but it must also express sincerity and respect for local consumers in the markets they are entering to ensure successful operations and maintain a positive reputation as foreign entrants can be quickly labeled not authentic their corporate messaging and advertising campaigns.

Pastries

- **Pros –** Pastries was the second product of focus we chose due to the complementary nature that pastries tend to have with coffee, allowing us to diversify our product line whilst providing a means of pushing our primary product for customers looking to add a beverage to their food purchase. Luckily for the firm, an analysis of typical Brazilian norms and traditions regarding breakfast items show that pastries can prove to be a particularly advantageous pursuit. The Brazil Business' article "What Brazilians Have for Breakfast" describes such norms. Key insights include the notion that a typical Breakfast in Brazil is fairly light and designed for quick consumption rather than being indulged in a formal dining setting, meaning that industries which focus on smaller items that can be eaten on the go will be more well received than providing a larger and more slower paced dining room (meaning that there will not have to be wait staff or various line cooks that would have to specialize in a variety of foods). As a result, the facilities do not have to be large in order for them to be effective, meaning that there will be numerous locations in which opening up a franchised location will be optimal as the metropolitan centers will be abundant with commercial sites for rent or sale. In terms of the food items themselves, the article states that common quick bites consumed by Brazilian citizens include Pao Frances which is Portuguese for French rolls, a simple item to bake at relatively low cost along with Pao de Queijo which is a cheese flavored bread roll, another low-cost item the firm can add to their product portfolio. Surprisingly, one of the key breakfast items consumed in Brazil include various types of cakes which are commonly flavored in banana or orange. In fact, fruits are also immensely popular for breakfast, meaning that the retail locations could set aside an area for local fruits to be sold along with various fruit flavored pastries. These key insights show that the business we are hoping to open will not only be well received in the areas we are looking to operate in, but will also be relatively inexpensive to open and operate as a whole, allowing the company to dedicate resources to marketing and corporate messaging which will be needed to win over customers looking for not only a new option in their area, but one that will satisfy their tastes.

- **Cons –** Although pastries allow the firm to leverage the sale of a key complementary product line, many other competitors may be selling pastries as well to drive up more sales in their respective retail locations. Even more so, there may be locations specifically dedicated towards the creation of pastries for local consumption, meaning that the firm will be competing with two separate entities that may have more knowledge and skills in relation to their craft regarding certain pastries like cakes. Nevertheless, the combination of two high demand products in one retail location should allow the firm to take advantage of not only the demands of local consumers, but also provide a much more convenient option for those looking for both products at once, especially in the morning where people may be under a tight schedule. The Brazil Business article states that much of these products are consumed between the hours of 6AM – 8:30 AM meaning that the company can preemptively prepare for the incoming demand of the day ahead beforehand after traffic has slowed down during the afternoon. Given that sweet items such as cakes still tend to sell after such hours, operations could shift focus on selling such items afterwards as dedicated customers could stop by to grab one of these items after work, but this is a practice that will have to be taught for each location.

Two Countries

India

- **Pros –** India is a fast-growing country with one of the largest growing economies. Critical factors of advantages for expanding business are stable economy, business reforms, digital competitiveness, and massive consumer market. Business reforms have to increase foreign equity and progress from a country that has once been considered a manufacturing hub to a more competitive market. This is shown with them currently ranked number 3 out of 141 in size for manufactured goods and services. We are interested in the growth in manufacturing because this means that the economy is growing and the amount of disposable income a household has is most likely increased. India is also showing growth within the service industry with expanding expenditure growth of $5.7-6 trillion by 2030. The increase in instability within the market is good, so we will not have dramatic price fluctuations that will affect the cost of business as well as projected income. With the currency valued being so low this is good because it represents that there will not be a dramatic fluctuation in the dollar's value. India positioned as a lower currency value, the US dollar, by equaling 74.3 rubies in India equals $1. This dramatic differentiation shows how we will expand with lower overhead cost in India, lower labor cost, and overall decrease in price of resources. The targeted customers will be in high trafficked areas like Bengaluru based on Devonshire population and business reports. We will target Bengaluru if we are to enter the Indian market, for this is the fastest-growing city where many tech companies are forming and have many working professionals. They will have the main customer base we are looking to target: the young functional professional looking for a quick cup of joe and areas surrounding students. If we enter the market early enough in India, we will have an excellent customer source and an opportunity to expand.

- **Cons –** India has many advantages on why they would be a great market to enter with our product; however, a few critical disadvantages include start-up cost, higher tariffs, and protectionist policies, and trust from a foreign entity in the marketplace. India is an increased regulatory economy that needs registration documentation, the lagged timing on permits, and enforcement of contracts that it takes. An example provided by IMBRD's includes registration of a prominent new venture from 40-68 days to register with the government. Prolonged timing on launching to market can make the difference even with the low cost of resources. Having this delay will not only affect the cost of launching but will also increase the cost of starting and getting the necessary permits needed to run the business in general. Additionally, India limits foreign direct investment within the country and has made headway to protect domestic producers. This means they limit the amount a foreign entity will have to enter the market and have an increased regulatory pricing for services and products that we produced. An avenue that also may be taken is a joint venture with a local business to help reduce the number of tariffs and regulations we are imposed further limiting our profit margins. Thus, with a history of pressure on foreign ownership of the business and local pressure requirements for investors will also become challenging. If India has placed high disregard for foreign entities, it will be harder to enter the market; we will have to earn our customers' trust. Since, India has such close cultural trust for local and domestic services we will have to work against the market versus just entering and becoming a competitor. The main difference with entering as a competitor and also entering as a competitor and a foreign entity is that the firm will have more disadvantages with gaining customers. Thus, we will need to spend more resources gaining local favor and endorsements versus other countries, which may be more welcoming.

- **Absolute/Comparative Advantages –** The absolute advantages of business in India are labor costs and the cost of resources within the country. The cost of labor is meager, which will allow for lower overhead cost on the allocation of money for employees and increase the amount we can spend on the coffee shop's location. Additionally, the prices of sites are also meager due to the expansive economy currently growing within India. The overall advantage on cost of labor and overhead is a great deal and can overlook the disadvantages that may arise from doing business in India. The country is also a major producer of coffee beans, which lowers our company's resources cost. This resource will reduce our production cost and allow our resources to get local coffee beans to gain community trust for our organization. If we are able to source locally and create joint ventures from a distributor relationship, this will also help with community ties and increase the firm’s profit margin if it is a distributor relationship versus a joint business venture. The target areas we will focus on to create this community trust will be in highly populated business areas by expanding and increasing commercial development within these sites. Expanding on our target audience will allow for a direct customer base and improve the consistency of customers coming in. India is ranked #3 in the world for Coffee producers of where they currently export 70% with 30% retained within the country, with minimal outside exports. Thus, our import cost will be lower on sourcing other beans.

- **Market Potential –** India's growth in opportunities in the service industry in Bangalore, Pune, and Hyderabad for food and beverage-related businesses is the most significant potential we have to expand in India. These cities have had a recent increase in urbanization and manufacturing opportunities, which means that they have had an increase in employment within those areas and correlates with a consistent customer base. We are looking for high traffic areas with customers with disposable income that can afford the occasional coffee cup on the way to work or students looking for a quick pick me up. If the manufacturing businesses are increasing not including the tech with this analysis this is our target demographic, the working young crowd. Additionally, India has 1.353 billion people living. They are ranked number 2 in the highest population in the world. If we can gain even a fraction of this population as our customer base, we will have an abundance of customers that we can potentially earn. Thinking of India and the many citizens it has, is great for us because as India expands to become more global, we will be able to position ourselves in the market as a necessity. By striking early and becoming engaged with the population before they grow fully and become more independent and gain more economic power. This strategy will increase the amount of market potential we are able to grab.
- **Risks –** With any venture in a foreign country many risks can occur, the main risk with India include, bureaucratic barriers and cultural differences are the main concern for doing business within India. The bureaucratic barriers consist of having to go through a rigorous long process to be able to do business within India. Another struggle within the

bureaucratic process includes the joint ventures that would allow for an ease into the market but, the complicated tax system with slow courts that can drag out a process that should be similar in countries participating in globalization. This is something we will be worried about if India is chosen to be the country that we want as our business venture because in a capitalist mindset it should not be that long. Cultural differences are going to occur everywhere however, in India it may be more prevalent for they are a multilingual, multi-ethnic society with notable cultural differences. The main relationship etiquette that we will need to be aware of the hierarchical relationships that are put on managers and staff in India. Understanding, these norms can pose a risk in negotiations with suppliers and partnerships with joint venture personnel, etc. Keeping a risk mindset, the CIA has officially counted 28 languages that vary from area/region of the country. This dramatic change will be an adaptive measure we must take to understand and communicate with employees and customers. We will need a higher cultural guide to help us become more familiar with customs and traditions for meetings, how to properly show respect, and how to go about are business strategies. We will need to budget for a cultural shift as well with all the new changes.

Brazil

- **Pros –** Much like India, Brazil contains a variety of large metropolitan areas and cities with large, concentrated populations such as Sao Paulo and Rio de Janeiro. According to the Britannica page outlining Brazil's major cities, Sao Paulo is the largest city in the southern hemisphere with a growing and diverse range of active economic sectors from technology to banking and global commerce. This means that the country will have a large degree of business professionals and corporate institutions, each filled with numerous potential customers who may be looking for a hot coffee and pastry to get them through the day. Given that the stores will only require small footprints, the opportunity to open up franchised locations should be more plentiful in such areas where one does not require a large degree of space to effectively operate, a key benefit when operating in an environment where many buildings will tend to lease out the ground floors to small and independent storefronts. This ecosystem prevents the easy entry of big box locations tend to be found in the Americas such as Walmart or Target which require large degrees of space but can tend to sell a variety of products for everyday use, including coffees and pastries as many of the locations (at least in the US) tend to have a dedicated café and bakery. Given both these types of firms are separated or highly specialized, the firm should find it easier to establish its presence in the cities stated above as the customer facing storefronts will provide two high demand products under one roof. Given that consumer demands are relatively simple and more traditional, adapting to such demands should not present a major challenge as opposed to areas in which consumer demands may be more complex bordering on being a niche all its own. Nevertheless, Brazil's current economic environment and growing power in the global economic sphere should present a prime opportunity our firm should leverage, especially as more foreign entrants will enter as soon as this opportunity shifts into the mainstream.

- **Cons –** Even though the firm's primary focus will be on entering larger metro-based areas with a high population of working professionals (and a large population in general) this also means that the firm will be entering areas in which local cafes may be more prevalent, many of which may have a greater understanding of local tastes and desires. As a result, it will be important to learn more about these market preferences before the first brick and mortar location is to be established, much of which will be crucial towards focusing on certain product lines offered in these locations. One article written by Vinepair (primarily a wine enthusiast publication but focuses on key beverage markets which include coffee) titled "The Revolutionary Coffee Shops Bringing Craft Beans Back to Brazil" discusses these local tastes in greater detail. Felipe Croce, the owner of a local café in Brazil (Isso e Café) who was interviewed in the article states that "The origin (of coffee) is also here, with farms close by. But the specialty coffee does not speak for itself. People are creatures of habit. They choose the coffee that reminds them of their grandma's house rather than the coffee that challenges them unless you walk them through it". This means that the firm should look to identify the key brewing processes and flavors utilized in what is considered to be "traditional" brews in the region whilst making careful and deliberate decisions regarding what new products the firm will hope to release. This does not mean that the local market isn't willing to experiment with new flavors and brewing styles, far from it in fact as the firm will have to show that it is able to make high quality Brazilian focused brews with Brazilian coffee beans first. From there, the firm can look to introduce products that provide more variety in terms of tastes and allow the company to set themselves apart from competitors. Yet, this key information will be vital to our firm as competitors that are not willing to adapt and look to take their own flavors into the market first will quickly be dismissed for firms are willing to brew products in the fashion that Brazilians are used to consuming, meaning that this should provide the firm a solid foundation when entering where others may not.

- **Absolute/Comparative Advantages –** Current advantages for the firm include the low cost of opening up locations in key metropolitan areas as the abundance of urban spaces for lease can lead to competitive prices, making it easier for local franchises to open in high demand areas within these cities as these locations will require little space to be operational. The other advantage is the abundance of coffee beans as the beans tend to be a major export for Brazil already. In relation to the price of obtaining coffee beans in areas outside of Brazil, purchasing coffee beans locally should reduce the costs needed to supply franchises with the ingredients needed to ensure operations run smoothly and keep up with local demand at an affordable price point. It is also key in reducing transport and storage costs if the key commodity being sold can also be purchased and distributed using local partners. Finally, is the ability to learn from the local firms already established and quickly adopt successful business strategies before growing in presence, something that should be a key focus before the firm's first wave of entry is ever completed. Most competitors may look to develop a home replication strategy simply due to the fact that both Brazil and their home nation may see coffee as a highly demanded product, but this doesn't mean that all aspects of the business will easily transfer to these markets. As a result, our firm can utilize the latest knowledge gathered from research already done to tailor product lines and satisfy local consumers rather than just pushing a plethora of general breakfast items that customers may or may not like. This will also focus costs on producing and selling items that are already proven to be highly purchased consumables in the local markets, which can be done at a relatively low cost since most of the items sold will require few ingredients to produce, meaning that the process of properly creating these goods should be easier to do for franchisees which also means that local staff can be taught more easily and in turn, accelerate the firm's overall presence due to the ease in which franchise can be opened.

- **Market Potential –** São Paulo and Rio de Janeiro can prove to be key markets for entry given its relatively high population and number of large firms which attract busy business professionals. Given most cafes tend to stir business through foot traffic, these cities should be ripe with locations in which local citizens tend to walk about, increasing the chances of customers obtaining interest in the products we hope to sell. The abundance of public spaces such as transportation hubs, retail centers and business districts will allow the company to not only leverage the city's layout to our advantage, but could also spur traffic from members outside our core demographic as families and nearby residents may be looking for an area to stop by for a quick snack that can be eaten on the go or even a warm beverage during the colder months which will allow the company to have a larger customer base outside of peak hours which will tend to decrease after the morning. As a result, focusing efforts to ensure each location is warm and inviting for all hours of the day will be crucial so that franchisees will be able to manage a location that invites customers outside of purely business officials after the morning and afternoon rush is concluded.

- **Risks –** Several risks may be involved regarding the entry into the Brazilian market as well as maintaining a successful presence in said market. The key concern being the country of origin effect that can occur whenever a foreign firm like ours enters a market with broad appeal but also high saturation of local establishments. This effect could initially cause residents to see the firm as another foreign entrant that will look to offer mass produced and bland tasting products that do not cater to local tastes. As one adage states "When you make something for everybody then you are effectively making something for nobody." This could give the impression that the firm simply produces uninspired and mass-produced goods that could be found anywhere in the world. This is the notion that we are hoping to break early on and thus should focus our resources on producing a select set of key products demanded by Brazilian citizens instead of creating a plentiful but non-curated set of goods (the usual scones, muffins and cookies found in a local Starbucks). Thus, messaging should show off the many regionally inspired creations and products that will be featured in our locations with a more down to earth message that emphasizes care and attention than our speed and ease of use which will be shown as customers enter the store. There is also the risk of oversaturation as opening up too many locations at once could produce lower quality locations to be established before our firm is truly ready to grow, meaning that franchisees should be carefully selected and approved to open in high demand areas first. Most of all, the company could end up facing supply shortages should local suppliers fail to produce enough coffee to meet our requirements. As a result, an effort should be made to find multiple suppliers and not hedge bets on a single firm, which could mean looking for suppliers outside the general metropolitan areas as we still hope to ensure that our coffee beans are locally sourced. Given the relative ease in which such beans can be acquired, this should pose to be an attainable task.

Chosen Country Based on Analysis

Brazil

- **Culture –** The culture for coffee is already there for Brazilians, they have farms that have produced and exported for years, but there is plenty of room for growth with "Specialty coffee consumption in Brazil is still a tiny market – just 5 percent of total coffee consumption,…" (Balston, 2019) But they have been large coffee drinkers of what aromas they recall while visiting grandma, but in 2018 they "…brewed their way through 21 million bags (weighing 132 pounds each) of coffee…" (Balston, 2019) The opportunities that are available for growth based on their previous cultures, allows foreign companies like ourselves to see large potential with our coffee sector. We would be able to assist in the learning that is needed to help Brazilians learn to enjoy the specialty coffee, grown from around the world and within their own backyards. Our pastries will fit in well with the culture if we are cognizant of our development within each region, but should have an understanding that "Brazilians have a sweet tooth…" (Pomela, 2015) and make sure we have sweet offerings, but could provide savory pastries as well. We would also offer up a quaint location for getting to know one another, which is what Brazilians want to do first before doing business. "A businessman is the citizen and the company at the same time and being friends with the company hastes negotiations and increases trust." (Nes, 2016)
- **Economics –** Being a free market, and also readily open to foreign entrants, we see Brazil as more viable than India. India is known for protectionism and wants to secure the local businesses before allowing too much growth by FDI. Being an ally of the U.S.

(India is as well), but with a closer proximity and staying on the same hemisphere as the U.S. we will see easier communications to occur. Per The World Bank, "…Brazil's macroeconomic framework is expected to remain broadly adequate, albeit with substantial downside risks, calling for strong fiscal consolidation and adoption of structural reforms, some of which have already started to remove critical bottlenecks for productivity growth." (The World Bank, 2020) This shows that Brazil has recognized some items they need to address and continue to develop their emerging economy as one of the BRIC countries. They started to make the proper economic reforms in the 1990's, and also adjusted their social policies, gaining credibility internationally for Brazil's economy. (Deloitte, 2020)

- **Politics –** The United States (our original basis for our company) and Brazil have had a long history and "…enjoy robust political and economical relations." (U.S. Relations With Brazil, 2019) The U.S. was also "…the first country to recognize Brazil's independence in 1822." (U.S. Relations With Brazil, 2019) which has allowed the relationship to be further boosted by the "…shared commitment to expand economic growth and prosperity…" (U.S. Relations With Brazil, 2019). These political agreements and others, have opened the doors for U.S. based firms to further establish foreign direct investment into Brazil, and continued prosperity for both countries. Ensuring we have favorable politics between the countries, helps to project long growth plans within Brazil and further development of our brand and allow our franchisees success and growth.
- **Laws –** Brazil is just really getting into a roll of what it means to become an emerging economy, but is walking a fine line with making sure the money stays local and does not always leave. Franchising is the best method to go about growth/FDI into Brazil, as they have an "extensive bureaucracy" (PwC, 2013) and "enormous internal growth potential" (PwC, 2013). With a local to help traverse the laws of being able to properly operate, and not having to create a full business structure within Brazil, some of the investment

and potential losses will be softened. But we see the potential upside for an ever-expansive growth as the most beneficial. The franchises will also allow us to meet the requirements of law that states “…all foreign investors must appoint a representative in Brazil who, jointly with the representative of the company receiving the foreign direct investment, will be responsible for registering the operation with the Central Bank of Brazil’s Foreign Direct Investment…” (Ricardo Barretto Ferreira, 2020).

SWOT Analysis (Product/Service, Organization, Country)

Brazil is the chosen country we have decided to move forward to enter the market and our preferred product focus will be the coffee beverage. The critical factors that lead to this conclusion were the amount of potential economic growth, FDI, economies of scale, and political influence. To understand further, we will be using a SWOT analysis of the Brazilian countryside, the organization, and the product/service.

- **Strengths –** The strengths of the product we have are the domestic specialty coffee market in Brazil has the expected growth of roughly $1 billion for 2020, according to Allegra World Coffee Portal. We are showing the stability of the product coffee we have chosen and the community commitment that has already been incorporated in the citizens. Furthermore, we can see Brazil's coffee market more clearly because the country itself has spent over "100 years studying the science of coffee" based on Barista Magazine Online (Baristamagazine, 2017). This is critical to gain customer trust. The way Brazil's citizens will react to our product will be more comfortable due to the historical evidence accessible to us. As a country, Brazil has the strength of being the best market for our business due to economic growth, foreign direct investment, economies of scale, and political influence. The country has had a steady non-dramatic inflation rate rise since 1998 -2020 with the current inflation rate of 2.7% based on the

International Monetary Fund (Brazil and the IMF, n.d.). A low inflation rate will yield a positive return with the cost of essential goods and services to remain stable. Not only is inflation low, but they have a current ranking of 58 out of 190 in the enforcement of contracts (Measuring Business Regulations). Having a government's commitment to enforcing laws that protect businesses in the forms of contracts is important to use since we are providing a service orientated company with no proprietary information. Thus, our organization's overall strength in Brazil includes the stability of the market, the historical presence of our resources within the country, and the political enforcement and encouragement of foreign investment in the nation.

- **Weaknesses –** Brazil's shortcomings in the realm of the product include competition within the already existing market. Brazil is a large coffee producer in the world with one of the most competitive coffee markets. According to Estado, a business journal produced in Brazil, many coffee shops have a saturated market outlook. Where the average franchise coffee/donut shop has a rate of return in 24 to 36 months with a $98,000-$243,000-dollar initial investment, we would be creating our franchise model. Still, we will use the numbers here to understand the analysis portion in terms of weaknesses. This is a weakness our organization can have if the market is full of different established players. Having an oversaturated market could impose difficulties with our business model of creating our shop versus a joint venture outlook based upon the market that has already been established. We will have to spend more resources on marketing to pull customers from established firms. When it comes to the country as a whole, political and corruption weaknesses make us weary. For, political challenges in the forms of taxation in the country will take away from the potential profit we can claim. Brazil currently has a foreign company surcharge of 15% on taxable in addition to the 10% surtax. High taxes could impose a problem for the economic resources that we have. Another issue includes the 2016 impeachment of President Dilma Rousseff for corruption scandals with Petrobas, the public oil company resulting in a 2.1-billion-dollar loss (Standard & Poor's, n.d.). Even though this was in oil and gas, many political affiliations within the government were under scrutiny due to the country's lack of control. This is a weary outlook on the potential corruption that can occur within the state.

- **Opportunities –** Product opportunities include the low cost for direct within the country source of coffee beans, the location of our target demographic, and the competitive nation with the bean's production cost. There are roughly 300,000 coffee plantations in the country (Why Do Business in Brazil?, 2019; Mello, 2012). Having the ability to change suppliers if it is not working is important because if we had a limited supply we would be at the mercy of the supplier when it came to resources. Additionally, because the country has different suppliers of coffee beans, we will be able to create different roast and mixtures from different backgrounds to better cultivate the taste/impression on our customers. The opportunities within the country of Brazil include, growing in size with a 5.6% increase in service production in a field related to the coffee bean according to the same article by The Brazil Business. The targeted locations and areas where demographically they are growing include São Paulo, Minas Gerais, Rio de Janeiro, Espírito Santo, Bahia, Paraná and Goiás. Minas Gerais is the perfect location to have one of our first shops due to it being one of the states within the country with the most population being 19,597,330, this area also has the highest GDP for the region. Our ideal client is someone that has enough income for the leisure purchases of 2-3 cups of coffee a week. Areas like this are where we will find the perfect client and yield a great potential in opportunities. Opportunities in the source of firm potential include a huge consumer market, international opportunity to access to Latin America, and infrastructure in place. Brazil has the 5th largest consumer market and has a developing middle-class population that is steady throughout the entire country. The middle class is the exact area of demographic our firm wants; we want an average person with middle class income to be our ideal consumer. Once we have conquered and understand the Brazilian economy it will be easier to establish more franchises throughout Latin America with the MERCOSUR the regional trade agreement it has with neighboring countries this opportunity can yield great profit margins in other countries as well. Additionally, the infrastructure they have is an ideal comparison if our firm is coming from the United States. They are a developed nation that has roads, transportation facilities, and developed political structure that has been established. Entering a developed nation has more opportunities because citizens in the country are not worried about eating, political unrest, sanitation standards, etc. They have already obtained the basics so they can focus on the extra purchases they want. Overall, Brazil holds many opportunities for us.

- **Threats –** The threats that we have located in Brazil are economic and bribery/corruption in relation to the firm and country as a whole. Threats on the product we did not see any in regards to the direct source of obtaining and creating supplier relationships. The main threats that we found were within the country and the firm itself. To elaborate, as mentioned earlier under weaknesses the political corruption is prevalent within the country. Former President Rousseff was impeached from office with the charges of bribery however, his successor Temer posed a promising anti-corruption movement in office. Since this in 2016 Temer has been named in an anti-corruption investigation and an audio recording has been released that has allegations of him accepting wrongdoings while in office. There has also been corruption within the tax system due to the complexity of the system in itself according to the United Kingdom Department of Trade. If we are to enter the Brazilian market, we must be aware of political corruption that is occurring for we are coming from the US where it has very clear standards of practice when it comes to corruption. This correlates with the potential threat of the taxation system in Brazil. It is one of the most complex systems both for MNE and for domestic companies. So, we will need to hire liaisons to better understand the tax codes and procedures that are in Brazil. Additionally, Brazil is currently still recovering from the economic recession in 2016/2017 and has been growing at a 3.8% (Brazil and the IMF, n.d.).

VRIO Analysis (Product/Service, Organization, Country)

Resource or Capability	Valuable	Rare	Inimitable and non-substitutable	Organized to Exploit
Market Presence	Yes	No	Yes	Yes
Coffee Variations	Yes	Yes	No	Yes
Upscale Potential	Yes	Yes	No	Yes

Market Presence

- **Value –** Our goal is to have a strong local market presence by using variations of suppliers to have different regional specialties within our service. Its target is to offer a value proposition to middle class families that are everyday to occasional consumers. We will enter the market as the alternative services from the franchise chains that are currently with the market and provide a more local tailored feel to the consumer. The value we will be showing the small-scale size and comfortable family welcoming environment. We have chosen this value approach for it is the best way to facilitate community engagement in South American cultures (Explore Economies, n.d.).
- **Rarity –** No, we will not have name recognition to our consumers in the beginning and we are not inventing a new concept. This can come to an advantage as we can see the mistakes and outlines of previous coffee shops to create a more unique vibe and feeling to our consumers.

- **Imitability –** No, this concept of a coffee shop is not proprietary in nature. It will take us years and resources to accomplish to establish full dominance in the market. The goal is to create one to four shops with our product, so we do not have the goal to take over the entire coffee market in Brazil. We would like to take a small sector of the market fraction that is currently established. This goal is more attainable and can be more imitability within a selected region in the country.
- **Organization –** The goal for the organization is to exploit a small regional area of the Brazilian market. The organization as a whole has the market potential to scale quickly if we choose, our goal is to obtain a small scale franchise within the country.

Specialty Coffees

- **Value –** We are going to create cross regional flavors that will help diversify our value proposition to our clients. Most local coffee establishments create local flavors with bold flavors. We will do something different by mixing flavors offering something of different value. As consumers change and grow they are looking for different flavors.
- **Rarity –** The product combinations of coffee will be unique due to the variations of blends we will create and serve to our consumers. The rarity will be based on the regional coffee beans that are sourced and cross culturally mixed to create new flavor profiles for our customers.
- **Imitability –** Considering the value of other coffee shops that are already using these concepts it will be harder to create an exact replica of the different variations but not impossible.
- **Organization –** By adding mix blends and a customizable menu we will take advantage of the ability to individualize drinks. With having mixed blends, it will be easier for new coffee and current coffee drinkers to find something different to try every time they are in the shop.

Upscale Potential

- **Value –** Being new to the market we will have the ability to cultivate our own upward mobility. Having the new shiny toy effect in the market can come to our advantage if we have a nice soft launch before expansion within the region.
- **Rarity –** Franchises within the country of Brazil is not an uncommon practice that occurs. We were able to find many resources on price breakdowns of current franchises representing that the market has responded well with the franchise model for competitors.
- **Imitability –** No, other coffee chains are within the region and can expand to various locations and currently have strong presence within Brazil.
- **Organization –** We are new to the market so; we do not know yet how the market will respond. We will understand the market more in depth once we have entered.

Potential Challenges/Opportunities based on SWOT/VRIO Analysis

Although our SWOT and VRIO analysis outline the benefits and value provided by our firm over competitors, several challenges can arise as the company enters the international market of Brazil. We foresee a great value we can provide to the growing world of specialty coffees to the expanding money available for leisure purchases by the growing middle class. We will face existing competition and will not have a known name, unless our customer has been to the U.S. before, but believe we will have a unique experience and taste to provide our new customers to introduce our brand. We do not plan to saturate the market with our brand, so we can analyze our brand’s receiving in the Brazilian marketplace, but will use this as our test market. We already purchase from some of the local farmers for our other markets, so we see this as an existing opening to exploit further, but will continue to find other farmers to avoid potential crop concerns or unrest in areas of the country. This will help strengthen our ties locally, and provide more options for our other markets. Jumping in to the market as a franchise, should help us reduce the opportunity of dealing with bribery/corruption as a local would be running the business, and we are just providing a background/platform to follow. We expect to see a positive reaction to our firm, even as a franchise, and think the market will be open arms for future expansion after we complete our test market.

Business Strategy (Legal Form)/Country of Entrance

The prime business strategy that we are looking to focus on is the notion of franchising our brick and mortar locations to saturate our presence in the market more quickly whilst reducing the amount of direct management needed in running such a large number of locations, particularly when it comes to an international one. We do understand the need for properly imparting the knowledge and skills needed to not only franchisees but also our local team members. As a result, the plan for knowledge management would be to develop content regarding how to manage the franchise, how to create key products and how service should be offered in these locations. Thus, the content for such a campaign would be first be produced in our central office and then distributed to local storefronts via online classes, seminars and downloadable content since much of the knowledge is explicit such as recipes and employee manuals. As more knowledge is gained as the company begins to grow in these strategic areas, more information is sure to be obtained regarding local consumer preferences, highlighting the need for effective local responsiveness. Although distributing initial knowledge sources may reduce the need for a significant presence at the region in terms of corporate level leadership, due to the various sets of demands that would have to be addressed along with the need to maintain partnerships with local farmers and suppliers, a regional management team would be established to deal with these stakeholders and ensure that business operations amongst franchisees are followed and empower franchisees who are dedicated towards branch success with the proper equipment and maintenance processes, for the franchises themselves will be the primary means in which consumers will interact with the firm.

Competitors and their Influence

Several competitors exist throughout the selected markets that our firm should take note of, particularly during its early days of entry. One key competitor will include the localized coffee and pastry shops. Although these locations will not have the advantage of supplying both products at once, these fronts will likely have a more established presence in their area of operation. If a foreign entrant were to come in, the company would have to establish a solid value proposition to customers to show how the firm can not only fill their needs for traditional coffee and baked goods, but also how the company can provide such goods quickly and at affordable prices, which could be established if the proper coffee bean suppliers are obtained. Speaking of suppliers, maintaining a message that the products offered at our retail locations are locally sourced and spur regional economic growth should also be emphasized, showing that the company hopes to be a part of their own nation rather than pushing the interests of an entirely different nation. Most notably though would be the introduction of large café chains such as Starbucks and Café Nero which have established their own global presence in emerging markets and will be looking towards new avenues to broaden their appeal. The most concerning aspect is the company's ability to sell both coffee products and pastries. Yet, due to our ability to easily replicate high demand products demanded by customers along with our ability to adapt to these needs much quicker than larger chains will allow the company to address the shifts in market demands more effectively whilst ensuring our ability to maintain expected sales volumes even if larger chains begin to enter our latest areas of operation. We believe that with careful collaboration with local suppliers and focus on meeting consumer demands, the firm should be able to find and fill a niche in the respective international markets regardless of larger competitors hoping to enter at later times.

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