FUNDAÇÃO GETÚLIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

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Localization Strategies of Multinationals in Brazil

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RESUMO

Uma vez que as perspectivas de crescimento económico nos países mais desenvolvidos, como a Europa, os EUA eo Japão estão diminuindo, os mercados emergentes têm se tornado cada vez mais importante para muitas empresas multinacionais. Brasil, Rússia, Índia e China (BRICs) são agora os principais mercados em crescimento em todo o mundo e as empresas estão buscando estratégias para explorar ao máximo o potencial de consumo promissor nessas regiões. Um dos modos mais elaborados de prosseguir essa estratégia é conhecida como "localização" - uma adaptação das práticas de negócios (ao longo de toda a cadeia de suprimentos) com as preferências e condições locais. Este artigo é projetado para analisar as atividades de localização de empresas multinacionais no Brasil. O foco da análise é o de investigar as características do mercado brasileiro, que induzem as multinacionais a localizar o seu marketing mix (composto de produto, preço, colocação e promoção). Em dois estudos de casos com a empresa Suiça Nestlé e a empresa Alemã Volkswagen vários padrões de localização foram no mercado consumidor brasileiro. Os quatro resultados mais significativos da análise são os diferentes padrões sociais o Brasil, que forçar as empresas a reformular certas funções do seu mix de marketing (por exemplo, a colocação no caso da Nestlé), a aceitação dos consumidores brasileiros a pagar preços relativamente elevados (por exemplo, taxas de Volkswagen até 100% mais por seus produtos em relação à Alemanha); o enorme tamanho do Brasil ea infra-estrutura deficiente, que exigem uma abordagem de distribuição localizada; eo caráter atualmente ainda menos exigente dos estratos de consumidores brasileiros emergentes, que permitem às empresas oferecer produtos menos sofisticados em comparação aos mercados europeus.

PALAVRAS CHAVE: Localização, Marketing Mix, Brasil, BRIC.

ABSTRACT

Since economic growth prospects in most developed countries such as Europe, the US or Japan are declining, emerging markets have become increasingly important for many multinational companies. Brazil, Russia, India and China (the BRIC countries) are now the major growth markets around the world and companies are looking for strategies to optimally exploit the promising consumer potential in these regions. One of the most elaborate modes of pursuing such a strategy is referred to as "localization" - an adjustment of business practices (along the whole supply chain) to local preferences and conditions. This paper is designed to analyze localization activities of multinational companies in Brazil. The focus of the analysis is to investigate the characteristics of the Brazilian market that induce multinationals to localize their marketing mix (comprised of product, price, placement and promotion). In two case studies featuring the Swiss nutrition company Nestlé and the German carmaker Volkswagen various localization patterns have been discovered and the underlying trends and traits of the Brazilian consumer market have been examined. The four most significant results of the analysis are the different social patterns Brazil, which force companies to redesign certain functions of their marketing mix (e.g. placement in the case of Nestlé); the acceptance of Brazilian consumers to pay comparatively high prices (e.g. Volkswagen charges up to 100% more for its products compared to Germany); Brazil's huge size and poor infrastructure, which require a localized distribution approach; and the currently still less exigent character of the emerging Brazilian consumer strata which allow companies to offer less sophisticated products in comparison to European markets.

KEY WORDS: Localization, Marketing Mix, Brazil, BRIC.

Agenda

List of Abbreviations

AG	Aktiengesellschaft
ARS	Argentine Peso
BMW	Bayerische Motorenwerke
BOP	Bottom of the pyramid
BRIC	Brazil, Russia, India, China
BRL$	Brazilian Real
CHF	Swiss Franks
CLP	Chilean Peso
D	Daimler AG
€	Euro
FDI	Foreign Direct Investment
GE	General Electrics
GM	General Motors
GmbH	Gesellschaft mit beschränkter Haftung (German equivalent to Limited)
Ltd.	Limited
MAN	Maschinenfabrik Augsburg-Nürnberg
MNC	Multinational Companies
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
PEN	Peruvian Sol
PS	Personengesellschaft
SE	Societas Europaea
SUV	Sport Utility Vehicle
TRIAD	Europe, USA, Japan

US$	US Dollar
VW	Volkswagen
VWAG	Volkswagen Aktiengesellschaft
VWK	Volkswagen Konzern
VWN	Volkswagen Nutzfahrzeuge

List of Pictures/Graphs

1. Introduction

Developed consumer markets such as the US, Europe or Japan have been suffering from low economic growth rates over the last years. The European debt crisis and the still existing impacts of the US credit crunch have adversely affected current and future demand structures in these regions. Even traditionally strong economies such as Japan, France or Italy are presently facing considerable structural problems and appear to have dismal prospects within the forthcoming years (Vaclav, 2012). High public debt rates, decreased consumer spending, comparatively high labor costs and inefficient political frame works (e.g. the European Union) are among the most evident reasons for the persistent economic stagnation in these markets.

Despite this recent economic downturn many of the world leading companies still come from developed markets. Corporations like Apple, Toyota, Siemens or Novartis are originated in the so called TRIAD countries (Japan, North America and Europe) and belong to the most successful players in their respective industries. Since the domestic growth prospects for these multinational companies (MNCs) have been deteriorating throughout the last years, other geographic regions have become increasingly important. Emerging markets such as Brazil, Russia, India and China (the BIC countries) bear significantly more interesting economic prospects than traditional developed markets during the next years (Goldman Sachs, 2003). Due to expanding consumer bases, rising income levels and a gradual opening to global trade the BRIC countries currently offer the most promising potential for future demand (Maha, Maha & Ignat 2010).

In order to remain industry leaders and ensure growth over the next decades, MNCs will have to escalate their exposures to these auspicious regions. Without a strong presence in the BRIC countries competitors will grow more rapidly and eventually outpace those companies that have not sufficiently focused on emerging markets (Vries, Erunban, Timmer, Voskoboynikova & Wua, 2012). MNCs thus have to articulate strategies that allow for successful and sustainable market cultivation in the various emerging economies around the globe. Understanding the respective market characteristics/consumer trends and developing country-specific adjustments seems highly important in this context. Many MNCs have adopted so called “localization strategies” in order to accommodate the diverse social patterns, different cultural conceptions, income-disparities and many other differentiating factors in the potential host countries (Lang & Mauerer, 2008). By using local knowledge and creating adjusted product solutions more consumers can be reached and more latent consumer necessities can be satisfied. The localization of a business function can encompass literally all aspects of a company's activities from sourcing and R&D to market oriented subjects such as products, prices or distribution (Cheon, Cho & Sutherland, 2007).

Brazil – one of the potential future growth generators – has increasingly caught the attention of many MNCs during the last decades. Its vast consumer base, its substantial natural resources, its positive growth prospects (partly because of major infrastructure investments due to the Soccer World Cup in 2014 and the Olympic Games in Rio de Janeiro in 2016) and its sheer size make Brazil a promising market for all kinds of foreign investment. As a consequence, it should be interesting to analyze localization patterns of MNCs in this particular market. Which consumer trends in Brazil are essential for MNCs? Which strategies do they use in order to adjust to local consumer structures? How do MNCs manage to differentiate their product solutions?

1.1. Research Question

As suggested in the last paragraph, an analysis of the existing localization structures in Brazil seems to be a rewarding topic for investigation. Localization is a successful corporate strategy with regards to international expansion and reveals instructive insights into a country's economic set up. This paper is designed to analyze the crucial trends and conditions in Brazil that require multinationals to redesign their activities in Brazil. The focus of the analysis will be a company's market oriented functions such as pricing, product composition, promotional activities or distribution (the marketing mix). These functions directly target the consumer value and may therefore allow for deep insights into the trends and dynamics of the Brazilian consumer structures. As a result, the following research question has been formulated:

"Which characteristics of the Brazilian market induce multinationals to redesign their marketing mix in Brazil?"

By analyzing the localization strategies of two internationally successful companies – Swiss Nestlé and German VW – this research question shall be analyzed. Two case studies featuring the companies' marketing mixes will give profound information about the various characteristics of the Brazilian market that require companies to adjust their activities.

2. Literature Review

The literature review contains an overview of the relevant internationalization theories and elaborates on the varying definitions of localization. Moreover, it establishes a link between management theory (and/or marketing) and the subject of localization.

2.1. Internationalization Theories

In order to give a short summary of localization and its origins, it seems important to introduce the major internationalization theories. The theoretical background already gives first insights about why companies often adjust their strategies in foreign markets (and consequently “localize”) and is thus helpful for the future objective of this paper.

Internationalization theories can be divided into three basic groups: the gradualist school which focuses on the chronological sequence of the internationalization of firms; the resource based view which focuses on the internal capabilities of the respective company and the non-gradualist approaches which focus on network related theory and international entrepreneurship (Ortiz, 2012). The two latter theories predominantly encompass company-internal factors (such as organization, technology etc.) and the way these factors influence the “strategic fit” of a company in a foreign environment (Clark & Pugh, 2001).

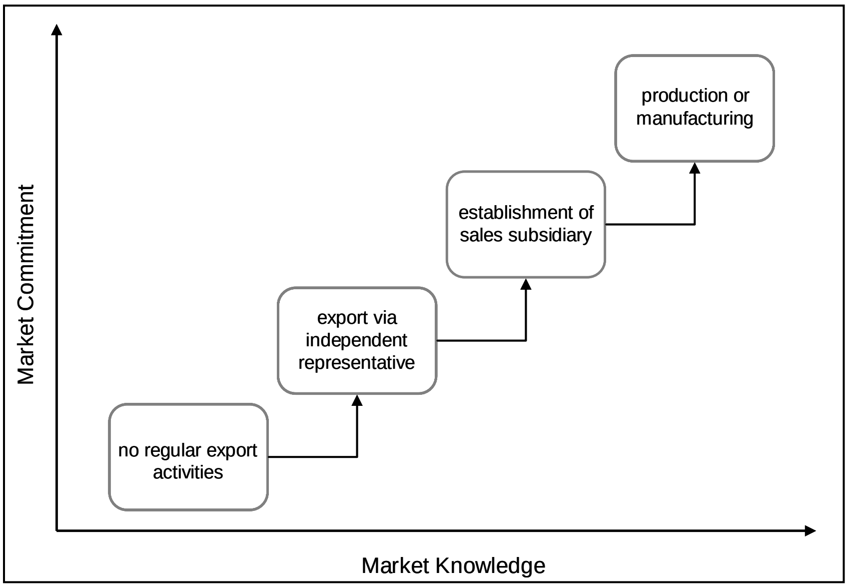
The gradualist approach on the other hand is concerned with the actual expansion of a firm to a host country and the way companies manage to differentiate their activities depending on the peculiarities of a particular market (Klein & Roth, 1990). Since this paper tries to explain why companies adjust their marketing mix in Brazil (a particular market), the gradualist approach appears to be the most adequate for this research. Therefore, this research stream shall be explained in more detail in the following.

2.1.1. The gradualist approach

2.1.1.1. The Uppsala model

Due to the rapid international expansion of MNCs during the last decades, the gradualist approach of international theories has been subject to significant research efforts in recent years (Birnik & Bowman, 2007). The first comprehensive model of this research stream has been designed by Johanson/Vahlne and Johanson/Wiedersheim-Paul in 1977 at the University of Uppsala (Sweden). According to their model companies first expand to culturally (or psychically) similar regions and then move on to more distant areas with the gained international experience. Firms that enter foreign markets generally have the disadvantage of being culturally and mentally distant and thus need to offer a product with a competitive edge as a means to overcome this difficulty (Johanson &Vahlne, 2010). The Uppsala-Model offers a step-wise strategy to international expansion, which may help firms to cope with the challenges of adjusting to a new market environment: the first step of international activity is unsteady export, the second is export via independent agents, the third is the establishment of own sales structures and the forth step is the creation of own production facilities (Eberbach-Sahilioglu, 2004).

Picture 1: *The Uppsala Model*



Source: Own design derived from Eberbach-Sahilioglu (2004).

Along this process of increasing involvement companies acquire more and more knowledge about other countries and markets and are eventually able to differentiate operations, products, services etc. depending on the respective local context (Blomstermo & Sharma, 2003).

Internationalization theories are currently a widely discussed topic among scholars and researchers. Continuing developments or updates of this research stream have been under way over the last decades. Since this paper focuses on localization and its link to marketing a further elaboration of the topic yet seems unnecessary.

2.2. Definition of Localization

The general process of differentiation towards national (or sometimes even regional) conditions has been defined as localization by various scholars (Birkner, 2011). Nevertheless there are different perspectives on localization in the research community. Wailerdsak and Suehiro (2002) for example consider localization "as the use of local processes, services, and resources" (P. 5) in the host country. This pragmatic definition emphasizes the operational (or executive) feature of localization strategies, once a subsidiary in a different country is built. Acquiring local knowledge and employing local people are crucial for this definition of localization.

Other researchers such as Lane (1998) advocate that localization by and large depends on how strong a company itself is integrated within the economic, cultural and political landscape of a given country. The better initially adapted to a local context, the easier localization strategies evolve and the more successful a company can operate in a new environment. Despite the different points of view, both of these definitions agree that localization is a process of rapprochement to local specifications (the first from a rather pragmatic angle and the second from a rather cultural/social angle).

In addition to this, localization is often referred to as a possible alternative to globalization. With regard to this observation Hines (2003) states that "localization is a process that reverses the trend of globalization by discriminating in favor of the local. Depending on the context, the local is predominantly defined as part of the nation state, although it can be the nation itself or even occasionally a regional grouping of nation states." (P. 2). Localization may thus be the counterpart to global standardization and forces companies to differentiate their activities depending on the respective country-specific requirements. By being "adjusted" to the local cultures, traditions, economy and political environment, international companies have the opportunity to increase their own sales as well as the welfare in the host country (Lucas, 2003). Localization in this respect is not only a successful corporate strategy but also allows for altruistic objectives such as protecting the cultural and natural environment of the host country (Pike & Tomaney, 1999).

These three approaches differ in their focus of analysis but coincide that localization is a strategy which incorporates adjustments to local values, preferences and social structures (Chen and Cannice, 2006). Scholars in favor of localization have argued that this strategy can bear several key advantages for international firms. Beside those already mentioned in the previous paragraphs major advantages can derive from a higher productivity due to a better match in the host country, more flexible reactions to alterations in the local environment, lower maintaining and labor costs (based on a better knowledge of the host country's labor market) and a higher probability to spot new opportunities in the foreign market (Welocalize, 2011).

Nevertheless there is evidence in the relevant literature that localization can also have negative impacts on a company's performance. Jain (1989) for example argues that standardized operations and products yield a higher profitability than localized ones, since international firms can reduce costs (by e.g. creating economies of scale) on a global basis, if all products and procedures are similar. In addition to that, some scholars believe that the convergence of cultural identities due to globalization induces costumers around the world to express similar needs (Ortiz, Emeterio & Menorca, 2012). This trend would make localization strategies obsolete and encourage companies to offer identical products around the globe.

Despite these justified objections reality shows that there are still significantly different cultures and consumer preferences in different countries and a "one size fits all" approach for all products and services is currently not the case (Hill & Martin, 2012). Localization strategies are consequently far from being outdated and play a central role in various areas of international corporate activity.

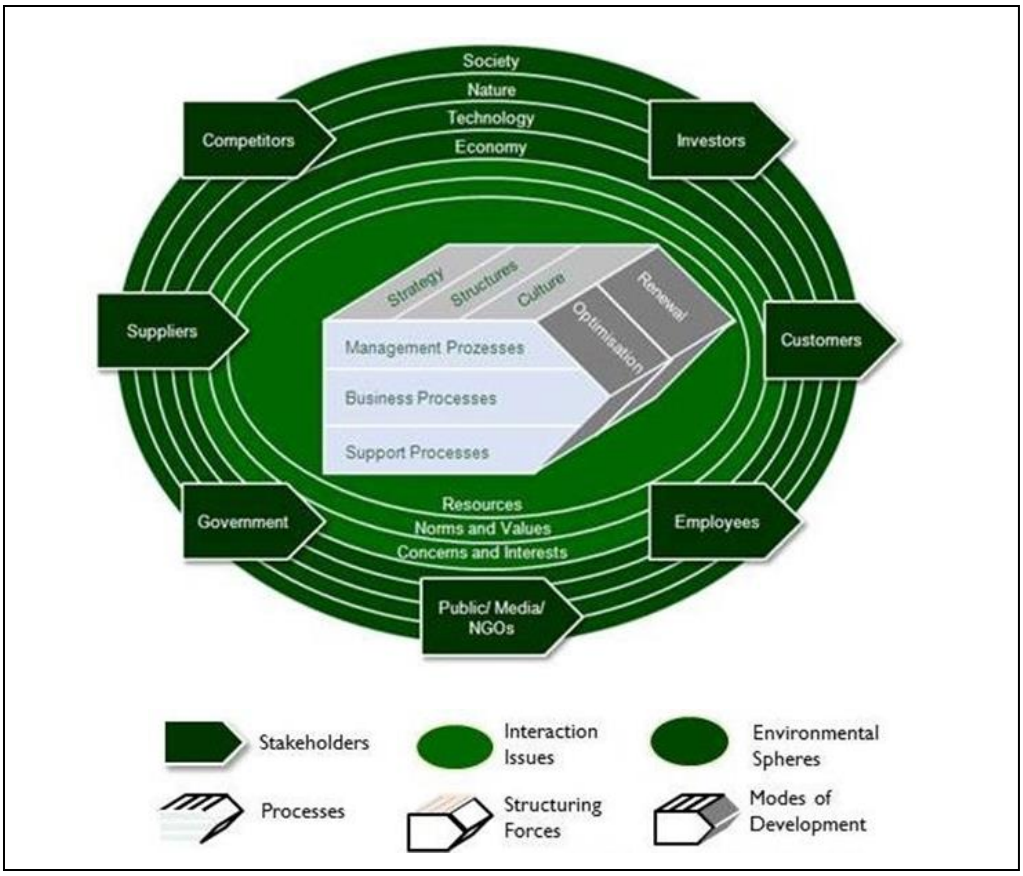
2.3. Localization and Marketing

As conveyed by the previous chapters the internationalization of firms necessitates localization strategies to effectively operate in a foreign market. So far it has not been specified which activities of a company are generally subject to localization and how companies actually conduct localization strategies. The localization literature contains basically all functions of a company's activities such as especially supply chain/logistics, research and development and marketing (Matthies, 2011). Localization scholars thus touch on all kinds of business activities and show that localization strategies are a valuable option for all internationally operating firms. Since this work focuses on the marketing mix of multinationals in Brazil, the link of marketing and localization seems most relevant and shall be discussed in the following in more detail.

2.3.1. Introduction to Marketing in a Management Framework

Since marketing is a central element of management functions, the following paragraphs will shortly demonstrate how marketing is embedded within management and thus give a quick introduction to a company's marketing functions. The framework for this analysis will be a management model developed by Ulrich, Krieg, Bleicher and Rüegg-Stürm (2004) between the 70ies and the 90ies in Europe (at the University of St. Gallen). Their holistic approach towards management does not only include business practices or strategy but literally encompasses all aspects organizations are confronted with from society and resources to costumers and investors. Since this work is trying to investigate which particular characteristics in the Brazilian market (e.g. social structures) induce multinationals to adjust their marketing mix (which is also a holistic approach), this integrated management model seems most accurate for the analysis. In the following the model shall be presented more precisely as a means to demonstrate in which context a company's marketing activities are located.

Picture 4: *Management Model according to Ulrich and Rüegg-Stürm*



Source: Rüegg-Stürm, (2012).

2.3.1.1. Environmental Spheres

As displayed in the picture the Ulrich/Rüegg-Stürm model integrates all relevant aspects in management. It starts with the *environmental spheres* such as society, nature, technology and economy. These spheres are points of reference for an organization and changes or new trends in the environment have to be analyzed closely for possible needs of adjustments. Society is the most important of these spheres, since it has the most significant impact on consumer demands. In terms of localization organizations have to consider that societies have distinct features in different countries and therefore, a differentiation of activities may be required (Dubs, 2010).

2.3.1.2. Stakeholders

A more concrete point of reference for companies or organizations is the set of the various *stakeholders*. Stakeholders are those individuals or groups that are affected by the value- (or damage) creation of a firm (such as investors, employees, government etc.). From the value-contribution of the stakeholders the actual purpose of a company emerges and managers have to be able to balance the (frequently conflicting) interests or claims/entitlements of the different stakeholders. Employees and investors for example typically have conflicting interests, since employees usually try to bargain for higher wages whereas investors focus on the shareholder value and dividends. The environmental spheres interact with the stakeholders (and often overlap), so firms have to get to grips with a complex and steadily moving surrounding (Schwaniger, 1994). In an international context the interests of stakeholders are even more complex, since companies are confronted with multiple governments, societies (with different mentalities, cultural backgrounds) etc. and the corresponding values of these stakeholders.

2.3.1.3. Interaction Issues

Interaction issues are objects of exchange relations between stakeholders and companies. These objects are resources (e.g. human capital), norms and values (e.g. shareholder value vs. stakeholder value) or concerns and interests (e.g. company growth vs. dividends for shareholders). Values refer to views about life and norms and are generally rules or laws based on these values. Concerns are standardized aims or targets, whereas interests focus on selfishness (without taking the environment into account). Resources are the opposite of these cultural aspects and refer to physical objects (or even employees) that are part of the negotiations between stakeholders and companies (Gomez & Zimmermann, 1993).

2.3.1.4. Order Dynamics

The three order dynamics (strategy, structures, culture) are responsible for a coherent alignment of a company's everyday processes (see below) and a superior value or a mission (Bieger, Tomczak & Reineke, 2004). Processes and order dynamics are thus in a circular relationship. In the following the respective order dynamics shall be explained shortly:

- *Strategy* is based on long-term decisions aimed at the construction of competitive advantages. Strategy is the content-related dimension of the order processes and should therefore comprise information about the interests of the stakeholders, the portfolio of products/services, the focus of the value creation and possible cooperation fields as well as core competences (Rüegg-Stürm, 2012).

- *Structures* are necessary for defining an adequate degree of the labor division within an organization. This can be achieved through the establishment of hierarchical structures (e.g. organograms) and the introduction of efficient work plans (e.g. sequential arrangement of tasks). Managers can easily accomplish change by using structures, since structures are explicitly formulated issues (Hauser & Brauchlin, 2004).

- *Culture* contains the implicit, profound structures of a company. Norms, values, attitudes or argumentation patterns play an important role in this context. Through labor division and cooperation culture is in a constant process of differentiation within an organization. Culture can be a competitive advantage even though employees can only vaguely describe the actual areas of culture (since culture is so fundamental). It is difficult for managers to change culture, since it is deeply (and sometimes unconsciously) enshrined in the heads or mindsets of employees.

2.3.1.5. Types of development (Optimization/Renewal)

Types of development describe the different ways a company can grow. The continuous and constant improvement of existing processes/structures etc. is optimization, whereas the discontinuous and erratic creation of new practices is referred to as renewal (Schwaniger, 1994).

2.3.1.6. Processes Perspective

The Ulrich/Rüegg-Stürm model perceives a company as a system of processes. Processes can be explained as standardized activities necessary for the everyday tasks of a company. A superior handling of these activities (especially concerning time) is a central prerequisite for success. The model differentiates between the following three types of processes (Rüegg-Stürm, 2012):

- *Management processes* encompass all basic tasks associated with the configuration, direction and development of purpose-oriented socio-technical organizations. Part of the management processes are normative orientation processes (goals, values, rules), strategic development processes (strategic plans, competitive advantages) and operative leadership processes (handling of employees, financial competence, quality management).

- *Business processes* are the core activities of a company directly aimed at the costumer's satisfaction. The central elements of management processes are product/service innovation processes and client processes such as branding, costumer acquisition and retention. On the operative stage the client processes are conducted through marketing activities. The Ulrich/Rüegg-Stürm model incorporates the so called **marketing mix** (1980) in this context and emphasizes that the 4 Ps (Product, Price, Placement, Promotion or in other words the components of the marketing mix) are the key variables for a firm's success in a certain market. Only a unique combination of the 4 Ps will yield a sustainable competitive advantage for a company. Consequently, product, price, placement and promotion are highly important regulators when it comes to adjusting a company's value proposal to a local context (which is in other words localization) (Malik, 2000). The marketing mix is the central market oriented activity within the whole management model developed by Ulrich/Rüegg-Stürm.

- *Support processes* are company internal services for the efficient conduction of the business processes. The components of these processes are internal training or personnel development processes.

2.3.1.7. Conclusion and Key Outtake

As demonstrated in the previous paragraphs companies are situated in a complex and constantly changing environment (especially considering the different stakeholders in different countries). Managers have to balance conflicting interests of stakeholders or the different environmental spheres, while optimizing and adjusting strategies, structures and processes (among many other tasks). All elements of the Ulrich/Ruegg-Stürm management model are interrelated and represent the central aspects, companies and managers have to deal with.

In the section "processes" (and more specifically business processes) it turned out that the marketing mix (or marketing in general) is crucial for the adjustment to specific markets or in other words localization. This apparent link between the two areas justifies further research and investigation on the subject and calls for a better understanding of how local structures impact on the marketing mix (composed by the four Ps) of multinational companies. The objective of this thesis (as previously stated) is to elaborate on the marketing mix of multinationals in a particular market (in this case Brazil) and to connect the unique characteristics of this particular market with the composition of the marketing mix.

2.4. The Marketing Mix and Localization

As shown by the analysis of the Ulrich/Rüegg-Stürm model the marketing mix consists of the 4 Ps – product, price, placement and promotion. Managers use these "controllable variables" in order to optimize a company's activities in relation to a given target market (Kumar, 2004). In a dynamic business environment adjustments of the marketing mix have to be carried out on a regular basis and the "match" between the consumers' desires and the delivered (or perceived) value (of a product or a service) has to be monitored closely. The following bullet points will give some information about the 4 constituents of the marketing mix as brought forwards by Bieger, Tomczak & Reinecke (2004).

- *Product* is the actual output of a company in the form of a physical object or in the form of a service. By differentiating the product according to consumer preferences and needs, companies can attain competitive advantages. The product is composed of several values such as quality, functionality, aspect, brand, packaging, service or warranty.

- *Price* is the monetary counter value for purchasing a product/service. Price can be another source for a competitive advantage and may be responsible for a company's success in the long run, since products/services usually converge in mature markets

(Porter, 1980). Managers can regulate the price by offering discounts, financing, leasing or other alternative ways of payment.

- *Place* concerns the distribution strategy of a company. The principal objective of distribution is to offer a product/service at the right place, at the right time and in the right quantity and quality. The areas touched by the variable place can thus range from locations, logistics, supply chain management or service levels to channel management or even internet apps.

- *Promotion* aims at informing possible costumers about the company, the brand and its products. Managers use aggressive promotion strategies by including all possible channels (from television to guerilla marketing), in order to convince the target population that a specific product is superior then others. The most important elements of promotion are advertisement, public relations, direct sales and media. A clever promotion strategy can possibly be more important than all other parts of the marketing mix, since (especially emotional) consumers are highly influenced by frequent promotion activities in their purchasing behavior.

The insights about the 4 Ps demonstrate that companies always need to focus on their relevant markets and tailor their products/services, prices, distribution- and promotion strategies to the specific requirements, preferences or desires of the target consumers. The 4 Ps are vital tools or variables for managers and always have to be subject to reflection, analysis and alterations or adoptions (Bieger, Tomczak & Reinecke, 2004).

Since different countries are shaped by different political, economic, cultural and social conditions, consumers around the globe articulate different needs and wishes (Malik, 2000). As a consequence, multinational companies do not only have to analyze the potential target population in a single country, but in many culturally and socially diverse environments. Depending on the local preferences, the marketing mix has to be changed, optimized or adjusted as a means to originate a sustainable existence (Gomez & Zimmermann, 1993). To put it into a nutshell, <u>localizing the marketing mix</u> is a crucial task for multinationals and the characteristics of the respective countries, societies and markets have to be analyzed thoroughly.

2.4.1. First examples of Localization

The following examples might help to understand how companies achieve a country specific differentiation of the marketing mix: VW offers stripped-down products (such as the Gol) in less developed countries (Baehnisch, 2008); Unilever has an innovative pricing approach depending on the purchasing power of each country (e.g. in the Northeast of Brazil Unilever sells detergents at a significant discount compared to its home market) (INSEAD, 2008); Nestlé uses various placement (distribution) approaches in its different markets (e.g. distribution through agents who sell Nestlé products carrying them through Favelas in big Brazilian cities or on boats through the Amazon vs. exclusive distribution through retailers in its home market) (NZZ, 2012); and Marlborough has completely revised its formerly standardized promotion activities (such as TV commercials) in Asian markets, once the company has come to understand that Asian consumers associate cowboys with low (or working) class people (Berndt, Altobelli & Sander, 1997).

Given these apparent success stories triggered by localizing the marketing mix, Hewett (2003) argues that localized marketing activities can lead to superior performance, since the more "efficient practices […] allow the firm to become aligned with or fit its external market and industry conditions, thereby resulting in better performance." (P.568). Carpano & Chrisman (1995) also came to the conclusion that "heterogeneous international markets require country-centered product strategies".

Despite the global trend of standardizing business activities, localization seems to be relevant and effective in the marketing mix of international firms. Marketing functions always directly interact with potential clients and must therefore be considered separately from other areas, where localization might be less important (such as global R&D, global sourcing or global supply chain management) (Enright, 2009).

2.5. Brazil as a suitable Example

Since multinational companies tend to localize their business practices (from production to marketing) on a country- or region specific level, many different examples could be chosen for the analysis of this paper. This is why the seemingly arbitrary election of Brazil demands a reasonable justification as well as relevant and profound information about the South

American country. In the following the major reasons for choosing Brazil shall be described and a short introduction to the most important features of the Brazilian market shall be given.

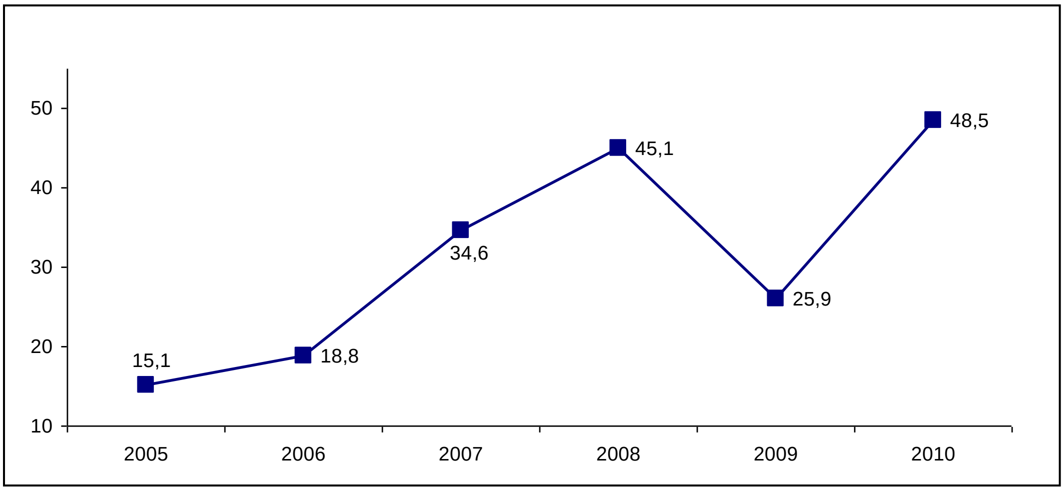
2.5.1. Economic Importance

Brazil's sheer economic importance is the first reason to choose it for this analysis. The biggest Latin American country (size wise as well as economically) with a total GDP of 2.144 billion US$ and a per capita income of 10,710 US$ in 2010 (World Bank, 2012) has become a regional hegemonic state and an undeniable global power (Cardoso, 2012). Thanks to an unprecedented political stability within the last 10 to 15 years, a diverse industrial base (from pharmaceuticals to airplane manufacturing), immense raw material reserves (the biggest iron ore reserves worldwide, coal, gold, recently also petrol) and an enormous agricultural capability (biggest cattle flock in the world, second biggest producer of soy in the world etc.), Brazil has irreversibly taken off in economic terms (Csizi, 2011).

Admittedly, the current growth prospects may not be as favorable as during the last years in the light of an imminent slowdown of the world economy. Moreover, due to a continuously high exchange rate and insufficient infrastructure investments (among many other factors) the Brazilian productivity has suffered during the last years. Nevertheless the macroeconomic fundamentals seem sound and the growing domestic market is still very attractive and may absorb some of the negative effects of the slackening world economy.

The rapid economic progress of Brazil has attracted many multinationals during the last decades and the country has seen many new market entries as well as significantly intensified activities of already established companies (Ogasavara & Masiero, 2012). This enhanced presence of various multinationals in Brazil triggered considerable foreign direct investments (FDI) within the last years as can be gathered from the following data.

Picture 5: *Net FDI in Brazil between 2005 and 2010 in billion US$*



Source: World Bank, (2012).

Brazil attracts more FDI than any other Latin American country and the other BRIC countries except for China (with 185.1 billion US$ in 2010) (World Bank, 2012). Considering the rapidly rising FDI rates (with a slight recession in 2008/9 due to the global financial crisis), it turns out that Brazil is a highly interesting market for foreign investors (including many multinational companies). The Brazilian government has been facilitating this foreign investment inflow for many years and already "after the Second World War, FDI played a key role in the process of Brazilian industrialization" (Costa, 2012, P. 95).

In addition to the intensifying activities of foreign companies, Brazilian firms such as Embraer, InBev or Copersucar have gained international reputation and belong to the leading corporations in their respective industries. In fact, Brazilian companies are currently acquiring established Western players and help to improve their performance by the expertise gained in their home market Brazil (e.g. InBev's acquisition of Anheuser-Busch or Copersucar's recent acquisition of Eco-Energy). Since the opening of the Brazilian economy in the beginning of the 90ies (especially within the MERCOSUR framework), Brazilian companies have been expanding significantly and currently 14 Brazilian enterprises are considered to be "among the 100 global challengers from emerging markets". (Fleury & Fleury, 2011, P. 147). This development is remarkable given that players from emerging countries have to compete with established industry leaders from TRIAD nations within the global market sphere (Larçon, 2009, P. 81). As a consequence, not only multinational companies in Brazil but also Brazilian companies in an international context are growing and performing well.

Given this sound economic setup in Brazil in the middle and long term, it should be interesting to investigate how multinationals approach the Brazilian market and in which ways they differentiate their products/services, prices, distribution strategies or promotional agendas (the marketing mix). Since Brazil has become one of the most promising growth markets worldwide, many companies have created innovative strategies to effectively satisfy Brazilian consumer demands (as will be shown in the following chapters).

2.5.2. The Brazilian Society and Brazil's BOP Market

A further reason for choosing Brazil as the country for analysis is the Brazilian society. Despite the fact that Brazil has been growing slower than many of its Latin American neighbors or its fellow BRIC countries, the steady 4% to 6% (on average) of economic growth over the last decade as well as the recent social reforms launched by the Lula government have brought significant wealth to the population (Economist, 2012). The GDP per capita of 10,710 US$ in 2010 (as previously mentioned) is the highest compared to the three remaining BRIC countries (Russia: 9,900 US$, India: 1,270 US$ and China: 4,270 US$) (World Bank, 2012) and Brazilians are keen on spending their growing income (and often even more than this) on consumption (Wirtschaftswoche, 2012). Despite recent warnings about the current and short time growth of the country, Brazil will be a major growth engine in Latin America over the next years. Given the forthcoming infrastructure investments (World Cup in 2014 and Olympic Games in 2016), this forecast becomes even more evident.

Brazil has a typical consumer society (in many ways similar to the US) and the rapidly growing middle class (already at around 80 to 100 million people depending on the definition of the term "middle class") (brasil.gov.br, 2012) gladly accepts incurring debts in order to finance its increasingly excessive wishes for consumption (consumer credits have grown by 32% since 2008) (Wheately, 2011). The purchasing power of this dynamically increasing social class (middle class or C-class) has grown by 40% since 2004 due to social reforms, a booming economy and a stable political background (Goffry, 2011). The middle class has surpassed consumer spending of the A- and B-classes together for the first time in 2009 (881 billion BLR$ accounting for approximately 47% of total spending) and is responsible for record turnovers and profitability in the Brazilian domestic market of many multinationals (Müller, 2011). In addition to the already existing solid consumer base, every year another (approximately) 5 million people enter the middle class and the still very poor D- and E-classes - equivalent to around 70 million people according to the *Fundação Getulio Vargas* (FGV) (Mercopress, 2011) - are gradually diminishing (Maurer & Ragir, 2011). The following table presents the distribution of the Brazilian society by income classes as of 2011.

Picture 6: *The Brazilian Income Classes*

	Income (in R$ per month)	Percentage of Population	Absolute Numbers
Class A/B	6,941 - x	11.2%	21.8 million
Class C	1,610 – 6,941	51.5%	100.4 million
Class D/E	0 – 1,610	37.3%	72.7 million

Source: Fundação Getulio Vargas (2012).

The data shows that the middle class already has a considerable income of more than 1,600 BLR$ per month and as a consequence, Brazil is well suited for the analysis of this paper. The fast growing consumer base (especially the C-class plus the fast social advancement of current D/E-class incomes) and the strong disposition of Brazilians to spend most of their available income (and often significantly more) make the country highly attractive for multinationals (Wheately, 2011).

The BOP Opportunity

The higher income classes are predominantly interesting for companies such as VW, which offer products with relatively high unit costs. Nevertheless even the lowest income classes may bear the potential for corporate profits. Companies that sell products with comparatively low unit costs such as Nestlé may benefit from selling to the Brazilian BOP population. The frequently cited “fortune at the bottom of the pyramid” (Prahalad, 2005) seems existent in Brazil given the sheer number of its D/E-class (72.7 million) and their continuously growing income levels. Many scholars such as Prahalad, Hart and Hammond believe that non-governmental organizations (NGOs) and states are less efficient at reducing poverty than private companies could be, if they employed the adequate strategies when dealing with BOP populations (Walsh, Kress & Beyerchen, 2006).

Frequent examples such as microcredits or even rural mobile telecommunication (in Bangladesh) have proven that companies can increase their sales and reduce poverty by integrating BOP members as consumers as well as employees (Richardson, Ramirez & Haq, 2000). The key notion of BOP advocates is that the very poor should be considered as an integral part of the consumer market which simply requires different rules. In general, the concept for serving BOP populations can be defined in the following way: MNCs charge very low unit prices (with accordingly low margins) from BOP consumers and merely try to maximize sales volumes (Prahalad, 2005). The profits achieved by this strategy logically come from size and volume rather than from margins. By adapting and creating innovative solutions for BOP consumers MNCs (frequently in collaboration with NGOs) may thus be able to tap into a new and untouched consumer segment and simultaneously improve the situation of the poor population.

Critics to this concept such as Karnani (2007) yet argue that the potential of consumption at the BOP is low given its limited income. Poverty alleviation rather comes from employing poor people and educating poor children than from selling products with low unit costs to them. Except for certain special cases Prahalad's concept does not work and seems "too good to be true" (Karnani, 2007, P. 4). Karnani is challenging Prahald's theory by emphasizing that BOP populations have very scarce resources and even the lowest unit prices may not be affordable for them. In his view the "fortune at the bottom of the pyramid" is an illusion and companies are not necessarily in a position to amend poverty by simply selling products to BOP populations.

Nevertheless, Brazil's poor populations in *Favelas* or in economically underdeveloped regions (e.g. the North-East) may be interesting for Nestlé as a current or future unconventional market. Even, if Karnani is right, the option of exploring these consumer strata may be an interesting and rewarding effort and Brazil's social structure seems apt for such an attempt (as will be demonstrated in the Nestlé Case).

Recent social unrest

Despite all these positive prospects there has been significant social unrest within recent times. Provoked by an augmentation of the public transport prices many Brazilians started to protest against various problems the country still faces. In June 2013 almost every day several manifestations in all major Brazilian cities have taken place with the aim to protest against pressing issues such as corruption (especially corruption associated with the construction of world cup stadiums), a lack of proper infrastructure, an insufficient health care system, missing investments in education or a huge and malfunctioning bureaucracy (Foha de S. Paulo, 2013).

It remains to be seen, if the ambitions of the protesters will be met by adequate reforms. President Rousseff has already opened talks with the leaders of the movement and new laws for corruption, potentially a new constitution and a more direct approach to democracy with a more active participation of the public may ensue. The current protests may therefore be a chance for Brazil to grow and develop in a more socially viable way.

2.5.3. Political Stability

The political system in Brazil is also an important factor for choosing this particular country. After many decades of political instability and social turmoil, Brazil has finally been under the rule of a firm and solid government for more than 15 years by now. Having controlled the long time problem of high or even hyperinflation (through the "Plano Real" in the beginning of the 90ies by Fernando Henrique Cardoso) and having overcome the military government of the 60ies, 70ies and (beginning) 80ies, Brazil is now benefiting from a sound political and economic setting. Approximately since the presidency of Cardoso three crucial conditions accrued for the first time in the country's history: comparatively low inflation over a long period, the existence of a functioning democracy and economic growth (Hengele, 2010). The accumulation of these three conditions has triggered the impressive economic development over the last one and a half decades already mentioned in 2.5.1. President Lula in the aftermath of Cardoso's government managed to significantly defuse social tensions by launching highly successful social reforms such as the *Bolsa Familia* (Economist, 2010). The current president Dilma Rouseff is continuing the moderate and economically sensible mode of her predecessors and is considered to run politics with "long term strategic aims and targets" (Stausberg, 2011).

In addition to these positive domestic preconditions, Brazil does not have to fear any external threat and keeps friendly relations with most foreign countries (especially its neighboring states). Given this unprecedentedly stable and intact political background, the future development of the country (politically, economically, environmentally etc.), seems very promising (Economist, 2011). Despite the fact that corruption is an issue and there are still many inefficiencies in the decision making processes of the political institutions (as well as in the vast Brazilian bureaucracy), the country enjoys a never existed political situation with a positive future outlook.

The political stability is also an important reason for the fact that many multinationals are currently intensifying their presence in Brazil (such as e.g. VW or BMW which are currently building new major factories in the country). The political system allows for long term planning, long term investments and the establishment of special practices tailored to the peculiarities of the Brazilian market. The highly improved political conditions compared to the time before 1993/1994 is making the Brazilian market even more interesting and expensive localization strategies might therefore be worth the effort.

2.5.4. Legal Framework

Another very important aspect is Brazil's stable legal framework with regards to foreign investments. As opposed to other emerging economies (e.g. China, India and Russia) Brazil has managed to create a sound and reliable system for FDI with few restrictions (e.g. financial institutions, energy related industries), low bureaucratic requirements and no obligatory partnerships with local companies as present in China (Costa, 2012). Cash investments in Brazil are supervised by the *Banco Central do Brasil* (BACEN) (the Brazilian central bank) and can be easily handled by international investors (other than cash investments require a more complicated procedure but seem to be less complicated than in other emerging economies) (Costa, 2012).

Brazil has a long history of FDI supportive governments beginning in the times of import substitution (60ies) and sometimes even earlier. "Since the very start, foreign investments in the country were regulated by a logic of market-seeking, the profitability of the investment being guaranteed by the protectionist trade policy." (Veiga, 2004). So, already in the 60ies, 70ies and 80ies Brazil had been enjoying substantial inflows of FDI. The attraction of foreign capital was enhanced by Brazil's protectionist economic policy (which in other words is import substitution) at that time: Brazil imposed very high taxes on all imported goods from other countries in order to create a diversified domestic industrial base. The only way of selling products at reasonable prices (especially during times when the Brazilian per capita income was much lower than today) was consequently to establish a subsidiary and start to produce in Brazil. All MNCs were hence forced to build up productions facilities in Brazil and thereby contribute to the domestic economy.

When the country opened up to global trade in the 90ies, the Brazilian government decided to continuously favor FDI. As a consequence BACEN further reduced the administrative expenses for FDI and the so called *Sistema de Promoção de Investimentos e Transferência de Tecnologia para Empresas* (SIPRI) was established to ensure future inflows from foreign investments (BrasilGlobalNet, 2012). In 2002 another organization – *Investe Brasil* – was created as a means to focus on attracting FDI with no regards to other related factors (such as e.g. exports). Costa (2012a) consequently argues that "Brazilian law makes no distinction between domestic and foreign companies and foreign capital is treated as equal as domestic" (P.96). All these efforts underline the Brazilian government's willingness to attract FDI and the importance of FDI for the country's economy.

Given the fact that Brazil's legal framework for FDI still relies on a law from the 60ies (and further constitutional rules) companies can expect a long-time perspective for their investments (Veiga, 2004). Moreover, the remittance of profits and the repatriation of foreign capital is not subject to severe restrictions (except for the case, when a Brazilian subsidiary has a negative net equity) and international companies find it easy to absorb the cash generated in Brazil (Costa, 2012a, P. 108). This security and reliability is a major reason for the massive inflows of capital in Brazil over the last decades and continuous to make Brazil a very attractive place for FDI.

2.5.5. Conclusion

The economic, social, legal and political conditions in Brazil can be considered very promising for multinationals as proven by the previous paragraphs. The stable political background encourages companies to make long term investments in Brazil and thus, sophisticate their activities in this highly promising market. Sophisticated activities can range from building new plants to creating R&D units or adjusting marketing strategies to the local conditions. The rewards for these investments are a booming economy and one of the world's biggest and most rapidly growing consumer bases. Brazil is consequently an adequate example for analyzing the existing localization strategies of multinational companies.

3. Methodology

3.1. Research Methodology

The methodology of this paper is a qualitative research via a thorough analysis of the available information as well as semi-structured interviews with experts. Two case studies of Europe-based multinational companies have been compiled by gathering the relevant information through extensive research and interviews with suitable experts in the field of study. This "multiple-case study approach" has been deemed a reliable way of generating knowledge in fields of study, where research is generally scarce (Eisenhardt, 1989). Eisenhardt & Graebner (2007) emphasize that "multiple cases are discrete experiments that serve as replications, contrasts, and extensions to the emerging theory" (P. 25) and are thus apt for inductively establishing new research results. Furthermore, this research methodology has already been applied in other investigations with similar research objectives (Yin, 1994).

3.2. Participants

The target population for the case studies basically encompasses all multinationals operating in the Brazilian market. In order to differentiate between the Brazilian marketing mix and the marketing mix in the home country of these companies, it appears logical to look for companies that significantly localize their marketing practices.

As a consequence two multinationals with sophisticated localization strategies have been elected. The first company is the Swiss food producer Nestlé. This company has gained considerable attention for its innovative distribution strategies in poor areas of Brazilian cities (see chapter 4). The second example is the German carmaker VW, since it deliberately varies its product portfolio depending on the local market context (VW, 2011). As previously stated VW even creates new models in order to optimize its presence in international markets. Both companies share a localized approach in the Brazilian market and may therefore be insightful cases for investigation. Moreover, since Nestlé and VW operate in considerably different market segments with different products and price ranges, it appears that a broad span of characteristics may result from the analysis of the two dissimilar corporations.

In addition to this, Nestlé and VW look back on a long and extremely prosperous history in Brazil. Nestlé has opened its first production facilities for milk related products (e.g. condensed milk) in Brazil in 1921 and VW has entered the country in 1953 with its VW Type 1. Ever since their respective market entries the two companies have been operating successfully and are currently undisputed industry leaders in the South American country. Brazil is among Nestlé’s top three markets (see Nestlé case study) and plays a key role in VW’s aggressive “Growth Strategy 2018” (see VW case study). Nestlé and VW thus represent two MNCs that seem apt for analyzing localization strategies given their sustainable and successful history in the country.

Admittedly there are many other companies in the Brazilian market that follow localization strategies comparable to Nestlé or VW (e.g. Danone respectively GM). Therefore the results of this paper cannot be considered universally valid. Nevertheless the examples of VW and Nestlé have been omnipresent at reviewing the relevant literature and thus appear suitable for the purposes of this research.

3.3. Procedural Method

3.3.1. Research and Interviews

In order to collect the necessary information about these three companies, the vast publicly available data has been carefully examined. In a first step company publications have been reviewed as a means to assess how the companies themselves consider their localization activities in Brazil. In a second step external sources such as academic papers, reports, etc. have been reviewed with the objective of putting the previously attained results into a more objective perspective.

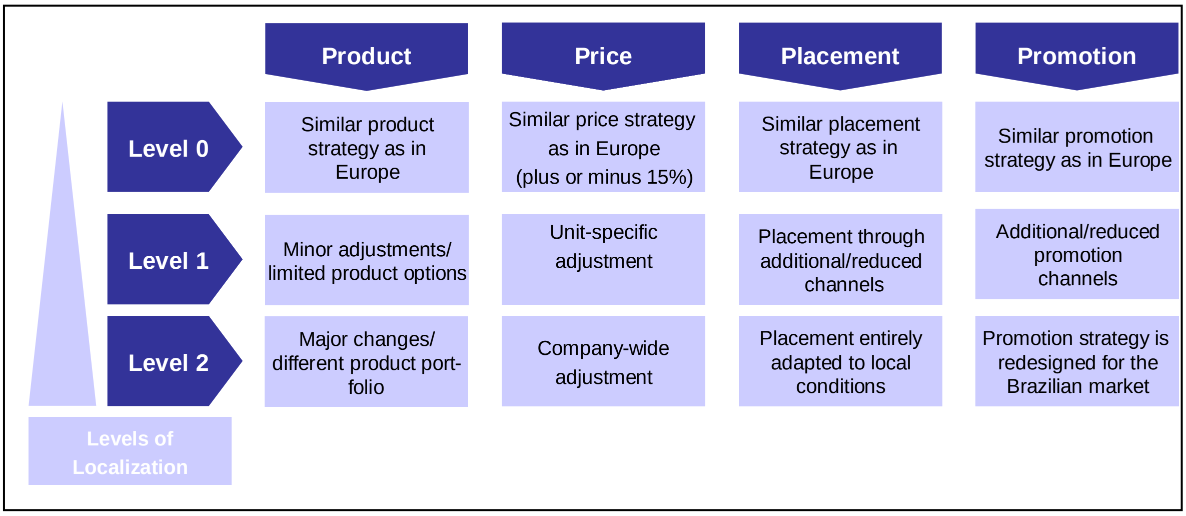
Since many crucial elements of the marketing mix cannot be analyzed by merely researching the available data, 11 semi-structured interviews with two expert groups have been conducted. The first group is composed of companies' representatives qualified to answering the remaining questions about the localization features of the respective marketing mix (such as unit heads, sales unit heads, marketing personnel etc.). The companies' representatives were partly based in the Brazilian subsidiaries and partly based in the European headquarters. This approach permits a more balanced evaluation of the different statements of the various interviewees. The second group is composed of external management consultants (principal or partner level) with extensive experience in the particular industries of the two companies. The input from company external sources helps assessing the information given by the companies' representatives. By using these two expert groups an objective picture of the actual localization practices and the rationales behind these practices could be generated.

The interviews were conducted in a semi-structured way following an interview guideline (see Appendix) that was sent out to the participants prior to the interview. The fruitful discussions derived from answering the interview questions frequently revealed interesting aspects that helped to understand the issues at hand from a more global perspective. Consequently, depending on the interviewee certain deviations from the guideline have been conducted before coming back to the next question. The gathered pool of knowledge acquired through this method was than structured and fitted into to rationale and logic of this paper.

3.3.2. Localization Framework

The information obtained through the ways described above allows determining which "degrees of localization" of each part of the marketing mix are present at the two companies in Brazil. In order to consistently depict these various localization degrees, a standardized framework seems necessary. Two frameworks have been developed so far in the localization literature. The first one was established by Lang & Mauerer (2008) as a means to assess general localization strategies in all of the BRIC countries. This framework was adapted and modified by Matthies (2011) in his attempt to analyze the localized supply chain activities of global car manufacturers around the world. Since the work at hand aims at a better understanding of the marketing activities of multinationals in Brazil, the two previous frameworks have been adjusted to the marketing mix function as displayed in the following picture.

Picture 7: *Localization Framework*



Source: Author's own design derived from Matthies (2011) and Lang & Mauerer (2008).

As shown in the picture three different levels of localization for all constituents of the marketing mix have been established. At Level 0 a company's activities can be considered very similar to those performed in the home country. At Level 1 and Level 2 the activities are increasingly localized and special practices have evolved as a means to adjust to the conditions of the host country (in this case Brazil). In the following the three levels of localization for each part of the marketing mix will be explained by referring to Porter's Crucial Factors (see 2.1.1.3.) of localization (such as country composition, demand structures, supplying industries, company's own structures, secondary factors).

Product

- Level 0 describes a situation where no significant changes at a company's products exist and where the product portfolio is nearly identical to the one offered in the home market. A typical example for this level of product localization is the Swedish furniture retailer IKEA, since it sells the exact same products (even in its restaurants) in all of its shops located in 41 countries worldwide (Handelsblatt, 2012). In Porter's Crucial Factors similar demand structures such as consumer sophistication also favor Level 0 (which in this case holds true, since simple IKEA products can satisfy many consumer demands worldwide due to the fact that furniture clearly is a universal need).

- At Level 1 a company offers only those products in a given foreign market that seem most relevant for the respective consumer structures (demand structures). As a consequence, only a limited product portfolio in comparison to the home market is available. An example for Level 1 would be the German multinational Beiersdorf with its most famous brand “Nivea”. The Brazilian subsidiary focuses on creams and body care (such as e.g. sun lotions), whereas the German mother company offers many more products especially including the areas make-up and beauty (Beiersdorf AG, 2011). For Brazilians sun cream and related products are naturally more relevant than for Germans. Porter’s demand structures are different at this level, with some features similar and others distinct from the home country. This forces companies to adjust the product portfolio and prioritize those products that satisfy consumer’s most exigent needs.

- Level 3 is achieved by offering a significantly different product portfolio in a foreign market. The development of several new, innovative products that do not exist in the home market is a clear characteristic of Level 3. Automotive companies for example often design new models depending on the different market, since climatic and topographic differences (among many others) require different product features (Spilker & Sohm, 2008). The demand structures are hence very different and variables such as consumer sophistication or consumer information capabilities vary.

Price

- At Level 0 prices are considered to stay more or less constant throughout a company’s various markets. Minor alterations (of plus or minus approximately 15%) can arise from higher/lower transportation/production costs, custom taxes etc. A similar price yet does not mean that a company’s marketing strategy aims at a similar costumer segment, since an absolute price for example in Euros always has to be judged in relation to the buying power in a certain market (or market segment). In low income countries a “cheap” European product can still be perceived as “expensive” by the public. Consequently the same price does not always attract the same costumer (which is highly important for managing the marketing mix) (Hellhammer, 2007). In the case of equal prices the country composition (in Porter's Crucial Factors) in the home market tends to match well with the one in the host country and variables such as per capita income, production costs or distribution of wealth are fairly similar. In addition to this, the company's own structures are competitive in relation to other companies in the host country (which permits similar prices).

- At Level 1 a significant part of the products is offered at localized prices. At this stage price is actively used as a regulator for purchase mechanisms for a significant part of a company's product mix. Consequently, there is explicit price localization for some elements of the product portfolio, whereas other elements are not subject to adjustments. This is typical for companies where different business units have a high level of autonomy and can independently articulate new or innovative price strategies (Strobach, 2007). In addition to this, Porter's country composition on Level 1 features a higher distance between the home and the host country and some aspects such as especially income or culture may differ.

- Level 2 applies to companies that deliberately adjust all prices to the local level without putting too much emphasize on the actual production costs and margins. Level 2 companies are clearly market-oriented and try to understand which price can be paid by the target costumer of a certain product in a certain market (this can mean charging lower as well as higher prices than in the home market) (Simon, 1995). In contrast to Level 0 the market is the starting point for price calculations (as opposed to costs). In this case most of the variables of Porter's country composition are distant between the home and the host country, which forces companies to create an entirely different pricing approach.

<u>Placement</u>

- Level 0 can be associated with a similar placement strategy as existing in the home market. No considerably different channels for distributing the products/services are used. Especially industries with few distribution channels (such as e.g. the retail industry) is suited for Level 0 (Jain, Khalil, Le & Cheng, 2012). Moreover, if the country compositions (in this case especially infrastructure) of the home and the foreign country are similar, this level of localization seems adequate.

- At Level 1 companies feel the need to partly localize their distribution strategy and often additional or reduced channels are used. According to “Welocalize” (a global consulting firm specialized in localization) (2012) this case is typical for markets with similar consumer demands, but different physical infrastructures (Porter’s country composition). For example a different retailer network (in terms of retailer density) would force companies whose products are usually sold at retail stores (such as e.g. food producers) to look for alternative distribution channels like direct selling, e-commerce etc.

- At Level 2 the host country requires an entirely new distribution strategy due to different demand structures (in this case especially consumer behavior) and dissimilar country compositions (purchase culture, infrastructure). Sophisticated consumers often find direct distribution (e.g. via internet and post service) convenient, whereas less sophisticated consumers who e.g. may not have home internet access prefer retailers or door to door selling through sales agents (Schommers, 2010). Moreover, if the infrastructure is not suitable for the traditional or home country distribution in a given host country, an alternative approach has to be found (e.g. noxious goods in countries lacking a proper road or railroad system).

<u>Promotion</u>

- Level 0 is a situation where promotion activities are generally similar between home and host country. The same channels (such as TV, radio, newspapers, posters etc.) are appropriate in both countries and major adjustments (except for a language switch) are not necessary. If the country composition and especially cultural aspects as well as the level of education in a host country are similar to those at headquarters, this type of promotion seems most likely. Moreover, a similar behavior of consumers in terms of information seeking favors this level of promotional activity (Leuschner, 2009).

- At Level 1 the promotional activities are featured by similar as well as different distribution means. Consequently, the promotion channels of the home country are still used (or at least part of them) and further ones are added. The demand structures differ in terms of information seeking and consumer behavior which induces companies to look for alternative promotion methods, discontinue with those existing at the home market or intensify the most relevant ways of communicating with the target group. For example in countries where the Internet has become one of the primary source of information for many consumers (e.g. the U.S.), newspaper advertisements often show a diminishing importance (Huang, Lurie & Sabyasachi, 2009) and companies have to adjust to these alterations. As a result, the subtle differences of the various information seeking processes have to be analyzed and the respective measures have to be applied by revising and adapting the existing promotion strategy.

- At Level 2 both demand structures and country compositions between home and host markets differ considerably. This is true for culturally as well as economically distant countries, where consumers use diverse ways for gathering information. In rural India for example information in many cases is still being passed on through family members and friends, whereas in developed markets consumers enjoy an abundance of promotional activities via numerous channels (Baetzgen, 2012). Such differences require radically different approaches and companies have to aim at finding a "contact-adequate" way of communicating with the intended target group (Gerbert, 2010).

3.3.3. Conclusion

The explanation of the localization framework has shown how the variables of Porter's crucial factors force companies to localize their marketing activities per function. Country composition and demand structures turned out to be the key drivers for adjusting to a given local context.

In the following two case studies about Nestlé and VW these insights will be used in order to evaluate the various levels of localization these companies apply in the Brazilian market. Having determined the individual depth of localization per firm, the case studies will investigate the underlying reasons for these strategies (which are the decisive characteristics of the Brazilian market). With the results of this investigation the research question of the thesis (see chapter 1.1.) will be analyzed. In other words, the reasons for localization established by the case studies will give information about which characteristics of the Brazilian markets induce multinationals to adjust their marketing mix.

4. Case Studies

All information provided in the case studies is derived from the conducted interviews unless a different source is stated. Depending on the intended conclusions within the case studies the type of interviewee is sometimes explicitly cited. Due to disclosure agreements with each participant no names are given in this thesis.

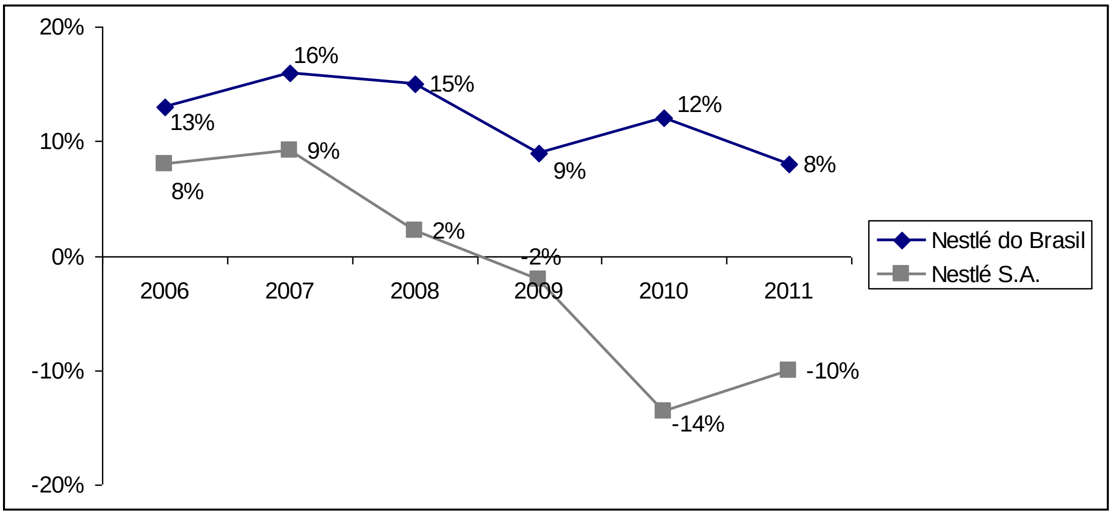
4.1. Nestlé Case

4.1.1. Introduction

Nestlé S.A. is the world’s biggest nutrition company with annual sales of more than 94 billion US$ in 2011 (Nestlé, 2012a). With a successful history of more than 140 years, a strong presence in almost every country around the globe (see Appendix 4) and a portfolio of approximately 84 brands, the Swiss based company truly is a global leader (Business and the Environment, 2010). Nestlé’s slogan of “Good Food, Good Life” addresses the strategic objective of being the world leader of nutrition, health and wellbeing (Nestlé, 2012b).

As already previously stated, Nestlé entered the Brazilian market as early as 1921 with its first product – a condensed milk called *Leite Condensado Marca MOÇA.* Having established itself in Araras (SP), the company expanded quickly to other cities such as Rio de Janeiro (1925), Recife (1927) and Belem (1931) (Nestlé, 2012). In the following decades the company managed to diversify its product portfolio in Brazil and strengthen its position throughout the country. Nowadays, with sales of more than 6 billion US$ in 2011 (accounting for as much as 6.5% of global sales), Brazil has become the third biggest market for Nestlé (after the U.S. and France) and contributes substantially to the company’s success. The Brazilian subsidiary has seen the highest average growth rates for the last 10 years in Nestlé's major markets and continuously outperforms the growth of the mother company as can be observed in the following graph (Nestlé, 2012a).

Picture 8: *Sales Growth of Nestlé do Brasil in comparison to Nestlé S.A. (in local currencies)*



Source: Nestlé (2012a).

The apparent success of Nestlé in Brazil has many reasons and the overall economic development of the country within the last 15 to 20 years is often cited when it comes to explaining why the Brazilian subsidiary of Nestlé has become so strong (Nestlé, 2012d). Nevertheless as Busch (2011) puts it, some part of Nestlé's prosperity in Brazil may also be attributed to its unique approach in the South American growth market. According to the Swiss newspaper Neue Zürcher Zeitung (2011), Nestlé's innovative marketing strategy reaches out to all classes of the Brazilian society and the concurrence of the four marketing mix functions is well suited for the desires and needs of the economically diverse Brazilian society. Nestlé's long year Brazilian CEO Ivan Zurita successfully managed to include a big part of the Brazilian society in Nestlé's consumer base and actively observes the rapid social movements in the country, in order to be able to offer the right products, at the right spot, at the right time and in the right quality and quantity required (Busch, 2011).

In the following the concept of Nestlé do Brasil will be analyzed by breaking down the respective marketing mix functions according to the levels of localization discussed in the previous chapter. This will help to understand the characteristics of the Brazilian market that force multinationals to localize their marketing activities.

4.1.2. Product

4.1.2.1. Evaluation of the Product Function

In order to holistically analyze the marketing function "product", the brands and products of Nestlé in Brazil will be compared to those in the home market. This comparison will allow a proper assessment of the localization degree of the product function within the localization framework.

Nestlé offers significantly less trademarks or brands in Brazil than in its home market Switzerland. Of the 84 brands present at home only 58 are available in Brazil, so the Brazilian brand portfolio merely accounts for approximately 69% of the total trademark portfolio. Among the 58 brands offered in Brazil, there are basically no different ones explicitly designed for the Brazilian market. In very few cases the brand name differs in Brazil (partly due to the different languages) or the product sizes are not equal, but the actual product generally remains the same (e.g. in the case of a children's health drink called Nutrin Kids in Switzerland and Supernesquik in Brazil). The brands available in Brazil are thus duplicates of the Swiss ones with some minor alterations in terms of the brand name, the size, or the packaging.

According to a Nestlé representative at the Swiss headquarters the products derived from the numerous Nestlé brands remain fairly stable throughout most countries around the world (including Brazil). This is due to the fact that at Nestlé many brands have been established to only sell a single product (such as "Nuts", "Nescafe", "Smarties" etc.). For the brands that incorporate more than one product such as "Alete" (baby nutrition) or "Bübchen" (baby shampoo) Nestlé tries to sell all products associated with the respective brand in all of the countries the brand has been introduced to. This phenomenon has become a common business practice at Nestlé, since establishing a brand image requires considerable marketing investments and selling more products of a single brand usually yields a better return rate. Consequently, within the brands of Nestlé, it appears that there are no significantly differing products in Brazil in comparison to Switzerland. Different packaging, different sizes and minor ingredient adaptations are common in specific cases, but the vast majority of products is fairly similar to those offered in the home market.

Having a closer look at the brands missing in Brazil, it turns out that predominantly "health-related" ones are not integrated at *Nestlé do Brasil*. Brands such as "Fitness" (a sugar free cereal), "Alfare" (healthy food additives), "Vitel" (sports water) or "Powerbar" (sports nutrition) are well known in the Swiss (and generally in the European) market, but are currently not available to Brazilian consumers. This discrepancy may be due to the increasing health and wellness trend in Europe compared to a still less developed consciousness about health issues in Brazil. According to Vonsl (2008) Nestlé is deliberately trying to meet the growing European demand for healthier nutrition by developing new product solutions apt to these needs. In Brazil this strategy is currently not necessary, since most consumers (according to Nestlé representatives) are not putting too much emphasize on buying healthy products. A clear demand for these products is lacking for the moment (Porter's demand structures), so Nestlé did not decide to launch them in Brazil so far. The company only offers those products most relevant to the Brazilian consumers (or Brazilian demand structures), which indicates localization stage 1.

Conclusion: Given the fact that Nestlé offers a limited brand and product portfolio in Brazil, <u>the first level of product localization</u> seems to be the case. Only the most <u>relevant</u> products are available to Brazilian consumers (excluding especially health related products) and no major new or innovative products have been developed particularly for the Brazilian market.

4.1.2.2. Explanation

The driver for localizing the product portfolio in Brazil in the case of Nestlé is clearly the difference in the nutrition concepts of Brazil and Nestlé's home market. In Brazil a vast majority is quite careless about healthy nutrition and simply buys and consumes those products that appear most convenient (e.g. cheap and tasty) (Oehrlein, 2009). Many of Nestlé's products offered in the country perfectly match these criteria and thus, ideally satisfy Brazilian consumer needs. For a few Brazilian *Reais*, consumers can purchase "delicious snacks" with tremendous amounts of sugar, salt or antidegradants (from ice cream to cookies). The lacking consciousness of Brazilian consumers with regard to healthy nutrition is demonstrated by recent investigations on overweight in the country: 15.8% of the population is currently obese and 48.5% is overweight (Merten, 2012). In 2006 only 11.4% was obese and 42.5% was overweight, so the tendency is clearly negative (Merten, 2012). In fact, almost 450,000 people in Brazil die from the consequences of overweight (such as diabetes, high blood pressure or infarcts) per year and “only” around 54,000 people die from the consequences of a lack of nutrition (such as anemia, pneumonia or diarrhea) per year (Oehrlein, 2009).

In Switzerland the numbers are less alarming with approximately 13% of the population suffering from obeseness and around 35% suffering from overweight (Swiss Statistical Office, 2012). The proportions are growing less rapidly than in Brazil and the Swiss government is actively trying to reduce the danger of overweight by prevention and education (Tagesanzeiger, 2011). In addition to this, in Switzerland and many other Western European countries the consciousness for healthy nutrition is increasing considerably. According to LotusConsult (2009) between 65% and 80% of all purchases in this region are motivated by the question “will or won’t the product be supportive for my health?” In Brazil this number is estimated at around 15% to 20%. The so called “health-trend” in Europe is currently reaching out to many more dimensions of the private and professional sphere and the disposition to invest more time and financial means in a better personal health is growing constantly (Sigrist, 2006).

4.1.2.3. Future Outlook

The clear discrepancy of nutrition philosophies forces Nestlé to launch healthier products in Europe while not considerably changing its product portfolio in Brazil. The comparatively weak demand for healthy products in Brazil is not inducing Nestlé to enlarge its product portfolio by integrating the respective health brands at the moment. The key driver for product localization is consequently the lacking health trend in the Brazilian market in comparison to European markets. The underlying reasons for this careless treatment of nutrition may range from a younger population (for which health naturally is a less important issue than for older populations), a lack of education combined with rising incomes (which enable excessive consumption) to simple food traditions (*Churrascos*, *Feijoada*, *Salgados* etc.) (Oehrlein, 2009). Nevertheless, the Brazilian society is developing rapidly and it is likely that healthier products will be increasingly demanded in the long run. Nestlé is prepared to launch these products due to its experiences in European (and US American) markets.

4.1.3. Price

4.1.3.1. Evaluation of the Price Function

In order to assess the Price function, imported and domestically produced goods have to be considered separately. For each of these two product types there are different pricing rules. Imported goods account for roughly 30% of Nestlé's products offered in Brazil and products manufactured in Brazil account for the remaining 70% of the product portfolio (depending on the various business units these numbers can differ considerably).

Imported Products

Pricing for imported products at Nestlé is always carried out via the internal "transfer pricing guidelines". These guidelines are related to the OECD standards (applying to more than 60 countries worldwide) and establish the so called "at arm's length principle" (for intra-company invoicing). At arm's length in this context means that equal products are internally sold at the same price (just as between two independent parties), so possible accusations of tax evasions can be eliminated. According to the transfer pricing guidelines, any product manufactured in a different country than Brazil has to be "bought" by the Brazilian subsidiary at an internationally fixed price. Price variations between Brazil and the manufacturing country are thus primarily the result of the different tax framework existing in Brazil.

The Brazilian tax law is one of the most complicated in the world and the following major tariffs have to be taken into account for importing to Brazil according to the German Brazilian Chamber (2010): the "*Imposto sobre Importacao*" (which varies by products), the "*Imposto sobre Produtos Industrializados*" (which again varies by products), the "*Imposto sobre Circulação de Mercadorias e Serviços*" (which varies by product and state), the "*Programa de Integração Social*" of 1.65% and the "*Contribuição para o Financiamento da Seguridade Social*" of 7.6%. Given that three of these taxes depend on the respective imported product, it turns out that major differences between the home market prices and the Brazilian prices can occur. The most obvious example is the case of "Nespresso Capsules". In Brazil the smallest pack is sold at 20.50 $BRL due to the "punitive tariffs" on luxury goods, whereas the exact same product sells at 5.20 CHF (currently approximately 10 BLR$) in Switzerland. For other products the tariffs are considerably lower, but there is not a single one that sells at the exact same price as in the home country.

The prices of imported goods are consequently different in Brazil due to various taxes and tariffs. Nestlé actually tries to offer the same products at the same price on a global basis, yet the respective national tax systems prevent this from becoming reality. Nestlé's strategy cannot come into action in Brazil due to the government's excessive import taxing.

Products Manufactured in Brazil

For products manufactured in Brazil the major rationale for calculating prices is the profit margin. The price is obtained by adding a margin (similar to the one in the home market) to the production costs. If the price calculated by this method is significantly higher than the one offered by the competition for a supplementing product, adjustments are made depending on the particular case. Since the competition faces similar costs and tries to achieve similar margins, significantly different prices are not very frequent.

The margin based pricing method generally results in similar prices compared to the home market. Brazilian production costs are lower than in Switzerland, but due to a higher productivity in the home market, this effect is almost nullified (also many products offered in Switzerland can be produced in other and cheaper European markets). Since Brazilian margins are supposed to be similar to the ones achieved in the home market, product prices seem fairly equal. A well-known chocolate bar such as "Choklito" (in Switzerland named "Lion") sells at approximately 2 BRL$ in Brazil (depending on the retailer) and at approximately 1 CHF (currently 2.08 BLR$) in Switzerland. This similarity is subject to exchange rate fluctuations, but Nestlé generally tries to offer its products in Brazil at a comparable price range in comparison to Switzerland.

The almost identical prices achieved through margin based pricing leads to the conclusion that Nestlé's pricing approach in Brazil is similar to the home market and Level 0 of the localization framework is the adequate assessment for this part of the pricing function. At Level 0 no significant price alterations between the home and the host market are recognizable and prices can be considered similar. According to Swiss Nestlé representatives Brazilian margins are even often calculated with a significant premium and the company achieves a high profitability in the country despite the fact that the actual sales price is similar.

Summary

The previous two paragraphs have demonstrated that Nestlé uses two different approaches for determining prices. For imported products the transfer pricing guidelines apply and Brazilian tariffs change the international invoice prices significantly (of up to 100% in some cases). The products actually manufactured in the country yet do not show any considerable differences and it seems that the company is trying to offer the same prices in both countries. How can the two different approaches be logically integrated into the localization framework?

Since goods manufactured in Brazil account for approximately 70% of all products offered in the Brazilian market, it seems reasonable to use this approach as the prevailing one and thus, assume that Nestlé is currently not trying to offer different prices in Brazil. According to Brazilian Nestlé representatives the Brazilian subsidiary is growing fast and eventually aims at producing all the demanded goods in Brazil which will save the enormous tax expenses currently paid. Only in the year 2012 the company invested an estimated 16 million CHF in order to create a new facility for its nutrition branch near *São Paulo*. In the long run the strategic directive is to produce almost all products in Brazil (which is also helpful for serving further Latin American markets such as the other three MERCOSUR members Argentina, Uruguay and Paraguay). The different prices obtained through the Brazilian tariffs are not deliberately intended by Nestlé and if the company could, it would offer all products at the same level. Of course pricing also depends on the various business units and the actual product lines, but the general tendency is clearly directed towards offering similar prices.

Conclusion: Taking into account that the Brazilian subsidiary will eventually manufacture almost all Nestlé products offered in the market, there is no significant price localization recognizable in Brazil. Many product prices are currently similar to the ones offered at the home market and only exchange rate fluctuations may make up for changes. Level 0 of the localization framework thus seems the most adequate assessment of this marketing function.

4.1.3.2. Explanation

Since the price strategy of *Nestlé do Brasil* appears to be similar to the one in Switzerland (or many other European states), there do not seem to be any important localization drivers. Offering the same prices at two entirely different markets (Switzerland vs. Brazil) yet seems odd considering the different characteristics of the two countries. Swiss consumers with a per capita income of 71,520 US$ in 2010 (one of the highest in the world) should actually be able to pay more for their products than Brazilian ones with a per capita income of only 9,390 US$ in 2010 (World Bank, 2012). How is it possible that Nestlé is able to sell products at similar prices in those economically so distant regions?

The major reasons for this phenomenon lie in the comparatively high production costs in Brazil which inflate the already high price level. These costs derive mainly from high wages (due to strong unions), a low productivity (due to a less developed educational system), a lack of automation, heavy finance expenses (Russo, 2011) and a complex tax system. These adverse conditions in Brazil are common for emerging economies as well as many other less developed countries and are usually balanced by a weak exchange rate (Edwards & Savasto, 1999). Thanks to a long time high in raw material prices (and Brazil's considerable commodity export activities such as e.g. iron ore) and intensified foreign investments in recent years, the Brazilian Real remains strong and a necessary and healthy devaluation is currently not possible (Faz, 2011). As a consequence, production costs are rising and companies have to react by charging higher prices. This observation is in line with the most recent results of the so called "Big Mac" Index (a common measure for purchasing power parity around the globe). The Index tries to depict which price levels exist in different countries by comparing the price paid for a McDonald's Big Mac. By this measurement Brazil ranks as the fourth most expensive country in the world after

Switzerland, Norway and Sweden (Economist, 2012a). The price level in Brazil is thus currently closer to Switzerland (which is considered to be one of the most expensive places in the world) than to its neighboring states (which share many social as well as economic features with Brazil). Given this apparent price proximity between Brazil and Switzerland, it makes sense to offer similarly expensive products in the two markets. The country composition in terms of production costs and prices is thus quite similar in the two countries (despite the different per capita income and the different distribution of wealth).

4.1.3.3. Future Outlook

The price level in Brazil is unprecedentedly high and can even be compared to countries like Switzerland which are well above the OECD average (World Bank, 2012). How do Brazilians pay these high prices considering that their per capita income is only one seventh of Switzerland's? There are many reasons such as a rapidly growing private debt rate (currently at around 40% of private income according to Estadão, 2012) and a highly unequal distribution of wealth (among others), but for Nestlé a company internal factor is crucial according to Brazilian company representatives: Nestlé's products are generally small and do not account for a big share of a person's income. Buying a chocolate bar for 2 BLR$, a Maggi soup for 2.5 BLR$ or a cacao for 3.5 BLR$ is affordable for many people with low, middle and high incomes. Even though the prices for these products are almost the same ones as offered in rich Switzerland, the absolute amounts paid for each product are insignificant enough so that even children and teenagers are in a position to purchase Nestlé products. Nestlé is thus able to benefit from its low unit prices and since food is a basic need for all consumers, a steadily rising demand for its products has been observed despite rising prices. This development is expected to continue in the future, since Brazilian incomes will most certainly rise and the comparatively high prices will be even more affordable than today.

4.1.4. Placement

4.1.4.1. Evaluation of the Placement Function

Traditional Distribution

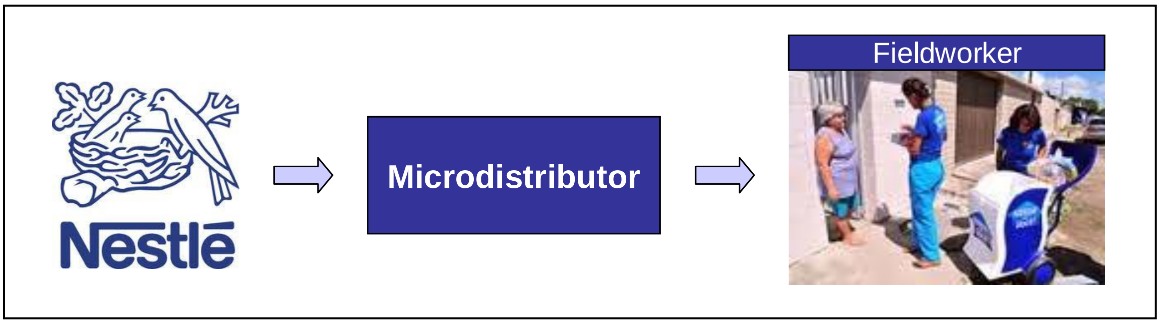
Nestlé uses a highly innovative multi-channel approach for distributing its products in Brazil. The major channels are still conventional wholesalers and retailers (from small and independent supermarkets to major chains such as *Pão de Açúcar* or *Extra*) and the biggest part of Nestlé’s products (more than 85%) is sold via supermarkets. With the products available at the numerous retailers in Brazilian cities (and even villages) Nestlé primarily tries to reach A-, B- and C-class consumers (which make up for the largest share of supermarket consumers). These three classes together account for more than 120 million people and constitute a vast consumer potential. In order to serve these social strata, the retailer approach seems most adequate, since A-, B- and C-class consumers generally shop their everyday items at nearby supermarkets as confirmed by company representatives. This consumer behavior is similar to Swiss (and many Western European) consumers and does not contain any significant potential for localization.

Micro-Distributors

Nestlé yet has found a new strategy for reaching those roughly 70 million people in Brazil that belong to lower social classes and have not been in touch with Nestlé products until a few years ago. As mentioned in the last chapter the unit prices of Nestlé products are low in absolute terms and even households with an income of less than 1,610 BRL$ per month (which is considered D- and E-class) can afford at least some parts of Nestlé’s product portfolio. Price is consequently not the ultimate barrier to buying Nestlé products. The major issue for many D- and E-class members is that retailers are far away from their homes (e.g. Favela houses/flats) and a trip to a bigger supermarket can only be justified by shopping a lot of items on this one occasion (otherwise the time and transport costs are wasted) (Busch, 2012). Since shopping big amounts is often limited by the small income of poor Brazilians, members of the D- and E-classes generally do not tend to frequent supermarkets and are hence excluded from the traditional distribution strategy of Nestlé (which in essence is a different demand structure combined with a different consumer behavior).

Access has consequently been one of the primary obstacles to purchasing Nestlé products for the Brazilian poor populations (NZZ, 2012). In order to amend this problem, a new distribution system has been designed: Nestlé distributes to so called micro-distributor centers where local “fieldworkers” can buy products and later resell them to residents of poorer *bairros* (such as Favelas), where people usually do not have an easy access to supermarkets.

Picture 9: *Nestlé's Door to Door Distribution*



Source: Author's design derived from Nestlé (2012).

This strategy has enabled Nestlé to benefit from the large low-income costumer base in Brazil. According to Barki and Parente (2010), "The advantage of this operation is that it gives low income population access to Nestlé products and consequently to consumers that didn't use to buy its products. Furthermore, with this new marketing channel, Nestlé is able to reach and get closer to the consumer, develop a closer relationship and greater relevance with people from the community selling its products in a face to face contact." (P. 5).

This innovative strategy was started in 2006 and according to Brazilian Nestlé representatives currently an irregular workforce of 7,500 people (of which a majority is female) is employed across 220 micro distributors in 15 Brazilian states. Considering that Nestlé "only" employs 18,000 permanent workers in Brazil, this huge irregular workforce is a symbol for the success of the alternative distribution strategy. The different demand structures of the D- and E-classes on the one side favor a door to door approach and the positive social impact of creating new jobs for poor members of the society boosts the reputation and publicity for Nestlé's brands and products on the other side. According to Nestlé (2011) the BOP turnover has reached BRL$ 1.3 bn in 2010 and is growing at a fast rate. In 2009 Nestlé enlarged this project by founding a micro credit bank in collaboration with Banco Bradesco. The irregular workers are able to use this service and thus accept credits to finance their weekly product purchases or other expenses. Nestlé has agreed to intervene in case of a potential default (which apparently is a mere exception).

Nestlé's Floating Supermarket

In addition to the micro-distributor approach Nestlé has started another initiative in order to reach poor Brazilian populations in hardly accessible areas. The project *Nestlé Até Você a Bordo* aims at providing Nestlé products to the rural population in the Brazilian Amazon region (Nestlé, 2010). On July 1st 2010 the first floating supermarket in the world left the city of Belém and passed through 18 municipalities in the *Marajó* Island region. Costumers in these regions are merely connected to the outside world by rivers and generally lack the opportunity to purchase Nestlé products in supermarkets. Ivan Zurita, CEO of *Nestlé* do *Brasil* commented this new strategy in the following way: “We are going to pick up the customer where he is. It will be a service to the population of the Amazon, who has streets and avenues in the form of rivers. It is a project aligned with our concept of Regionalization, based on the different profiles of consumers. We deal with each region as a different area” (Nestlé, 2010).

The boat contained 300 different Nestlé brands (such as e.g. Maggi or Nescafé) and reached out to a total of 800,000 people along the Amazon region around *Marajó* Island (Nestlé, 2010a). The *Nestlé Até Você a Bordo* project is thus a continuation of the micro-distributor approach using different means for the different needs of the Amazon population. Following this strategy Nestlé taps previously untouched markets and increases its good reputation and market presence in an increasing number of areas in the vast Brazilian territory.

In the context of *Nestlé Até Você a Bordo* it seems important to state that Nestlé has not only received positive feedback for its initiative. Many journalists as well as internet blogger communities questioned the initiative by asking, whether it is useful to integrate the still rural and traditional communities in the Amazon into the global market place. *Next Billion* (2010) – a social enterprise project – for example criticizes: “There is no mention in the company's news releases of the nutritional benefits of the products or how the company plans to manage possible adverse effects of bringing consumer products to communities which, until now, had managed to get by without those products.”

Nestlé’s Innovative Distribution Approach

Despite the partially negative feedback of *Nestlé Até Você a Bordo* it can be concluded that Nestlé operates an intricate distribution network. Therefore, Nestlé’s distribution activities can be associated with Level 2 of the localization framework. The company has created an entirely new strategy for reaching until recently untapped consumer potentials. Nestlé has been able to adjust to the different country composition (a much higher poverty rate in Brazil) and the different demand structures (different consumer behavior of poor society members in cities as well as in the Amazon region) by offering three separate distribution strategies that jointly serve the whole Brazilian market.

Conclusion: Due to different social features in Brazil Nestlé has created a unique distribution strategy integrating all of the Brazilian income classes. The traditional approach through retailers and wholesalers has been complemented by the innovative strategy of door to door selling at numerous poor neighborhoods in Brazilian cities as well as by creating floating supermarkets in the Amazon region. Therefore Level 2 of the localization framework has been evaluated as applicable for the placement function.

4.1.4.2. Explanation

The localization drivers for the adaption of new distribution strategies can be found in the diverse pattern of the Brazilian society. Despite the enormous economic catch-up with industrialized nations during the last 15 to 20 years and the rapidly growing middle class, there is still a substantial gap between the rich and the poor in the country. According to the World Bank (2012) 21.4% (equal to more than 41 million people) of Brazilians were living under the poverty line in 2010. Especially in the Northern regions of the country the inequality between the social classes is evident (OECD, 2011). As a consequence of the income discrepancies between the A-, B- and C-classes on the one side and the D- and E-classes on the other side, companies are required to develop different approaches, in an attempt to holistically address all potential consumers. This is especially the case in regions where the poor population is sufficiently big as to allow for expensive adaption policies (Prahalad, 2005).

Adaption in the case of Nestlé does not necessarily mean creating different (or stripped-down) products for the poor or charging significantly lower prices as could be observed in the last two chapters. The product mix and the price level are adequate for all social classes including the poorest ones. The major barrier for the purchase of Nestlé products for the poor population was the previously exclusive accessibility through retailers. The new, innovative distribution system has now connected Nestlé with many new costumers and tapped into formerly unobtainable segments. Nestlé is capturing the famous potential "at the bottom of the pyramid" (Prahalad, 2005) by systematically adjusting its distribution strategy to the needs of its previously latent consumers in Brazil. When these consumer strata move up into the higher social classes in the middle or long run, Nestlé will already be an essential reference point for their consumer behavior. This may be a sustainable competitive advantage given the dynamic prospects of economic development in Brazil.

4.1.4.3. Future Outlook

By running two independent distribution strategies, Nestlé satisfies the relevant wishes/preferences of two consumer segments with significantly different features. Middle or upper class members who usually shop at supermarkets can look for their favorite products in a dense network of retailers throughout the country. Less "sophisticated" consumers, who find themselves excluded from retail access, are able to purchase their Nestlé chocolates, drinks, or ice creams in front of their houses. This double tracked approach is due to the different consumer behavioral patterns which derive from socially different origins. In the long run income gaps are expected to decline in Brazil and poverty will be gradually reduced. As a consequence currently poor households will attain the means to shop at supermarkets over time and the door to door distribution might become less important. Never the less the current composition of Nestlé's distribution system seems agile, adapted and flexible. Given the still big poor population in Brazil there does not seem to be a need to change structures in the medium term.

4.1.5. Promotion

4.1.5.1. Evaluation of the Promotion Function

Nestlé's promotional activities are essential for its long time success and the company has been investing considerably in creating brand recognition on a global basis. Nestlé's long time CEO Peter Brabeck (Benady ,2005) summarized this strategy in the following way: Promotion "…is important because it is the engine of growth and brands play a key role in this.". The worldwide expenses for promoting Nestlé products has been lying at around

2.3 billion US$ in recent years according to Adbrands (2011), a leading marketing platform. This means that around 2.7% of sales (88.9 billion US$) are spent on advertisement activities.

In Switzerland (and many Western European countries), advertisement costs can roughly be estimated at around these 2.7% of sales on average. Depending on the various business units this number can vary significantly. Premium brands such as “Nespresso” demand proportionally more advertisement expenses (up to 30% of sales) than less sophisticated ones such as “Nescafe”. In Brazil advertisement spending follows similar rules. The 2.7% of sales can be considered a general point of reference for the average advertising expenses per product and variations among the different business units are very common (with premium brands asking for more promotion investments). As stated by company representatives there is no apparent sign of localization practices concerning promotion on the financial side. Home and host country thus use a similar approach in terms of allocating financial means to this marketing function.

Considering the actual types of media used for promoting Nestlé brands and products, it turns out that the Brazilian activities are also closely related to the Swiss or European ones. TV, newspapers/magazines, posters, sponsoring and the internet are major resources used for informing consumers about the “many advantages” of buying Nestlé products in both countries. The information seeking behavior (demand structures) for food related products can be considered similar in Switzerland and Brazil despite the different country compositions (especially in terms of education). Brazilians tend to spend more time watching TV (3.5 vs. 4 daily hours) and Swiss tend to spend more time on reading newspapers, but both consumer groups can be easily reached through these two mass media. A completely new advertisement strategy is thus not necessary for the Brazilian market. A Marketing representative of *Nestlé do Brasil* commented on this observation: “There is no need for reinventing the wheel. We orient ourselves on the actions of the headquarters and have achieved a great success story in Brazil.”

In addition to this, the actual contents of the commercials are similar in many ways. A caring mother preparing a “Nestlé-breakfast” for the family, the typical wit of a “KitKat” commercial or George Clooney as the face of “Nespresso” are all globally synchronized advertisement schemes. This is due to Nestlé’s clear objective of creating global brands with similar associations around the world. An industry expert annotated regarding this strategy: "Brand establishment is an expensive and longtime oriented endeavor. In order to transfer a given brand name from one country to the next, companies such as Nestlé generally use similar advertisement concepts, since they have already proven to be successful in the first place. By doing so, they also reduce the danger of inter-country brand dilution."

Not every single advertisement or other promotional effort in Brazil is equal to the home market. Due to seasonal differences, a new product launch or other short time (and often external) factors, there can be slight differences in intensity or the use of media. Nevertheless there is a strong tendency at Nestlé to design globally similar brands and thus launch similar promotion strategies for all of its brands on a global stage.

Conclusion: No significant differences in promotional activities between Switzerland and Brazil have been observed. The financial investment, the types of media used and the advertisement contents are fairly similar in the two countries. As a consequence, Level 0 of the localization framework is the case for this marketing function.

4.1.5.2. Explanation

In this case there are clearly no localization drivers that force *Nestlé do Brasil* to create an entirely different promotion approach. However it seems interesting to investigate why the apparently similar promotional activities have successful results in two countries that have many distinct features (e.g. country composition).

According to industry experts the success of promotion in both countries is due to the characteristics of Nestlé's advertisement approach. Since the company uses all available channels (from TV to promotional events) and many advertisements are carried on a high frequency basis, all potential consumers can be reached. No matter if the respective consumer lives in a Brazilian Favela or in a Swiss suburb, the probability of perceiving a Nestlé commercial is high (e.g. through posters, TV, internet etc.). Therefore, Nestlé enjoys a high level of awareness in both countries and consumers immediately recognize products offered in supermarkets (or products distributed by Brazilian "fieldworkers").

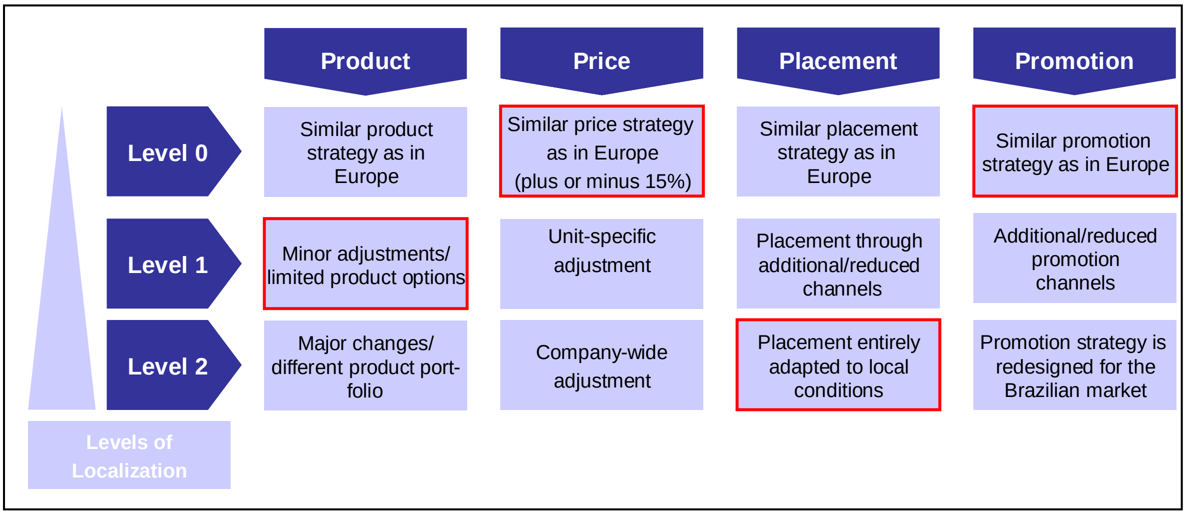
4.1.5.3. Future Outlook

Generally speaking consumers around the world find it easy to identify with the actual contents of Nestlé's advertisements. The contents are not overly influenced by the Swiss culture and rather play with "Western" values (such as a happy family, children etc.) accepted in both Switzerland and Brazil. Nestlé's slogan "Good Food, Good Life" symbolizes the universally applicable message of the company. As a consequence, consumers from different societies (even as different as Switzerland and Brazil) can embrace Nestlé commercials and products. Therefore, Nestlé does not feel the need to localize its advertisement strategy and Level 0 of the localization framework seems adequate. This may hold true in the long run, since globalization trends are shaping the beliefs and wishes of costumers around the globe and cultural differences are gradually declining between many countries.

4.1.6. Conclusion

The previous chapters have demonstrated that Nestlé is deliberately localizing its marketing activities in Brazil. The different country compositions and the diverse demand structures of Switzerland and Brazil require a sophisticated interactional setting of the 4 functions. The unique approach of Nestlé in Brazil is a concurrence of some highly localized characteristics (product and distribution) and some standardized features (price and promotion). The following table summarizes the results of the analysis of the 4 Ps.

Picture 10: *Nestlé's Localization Framework*



Source: Author's own design derived from Matthies (2011) and Lang & Mauerer (2008).

From the analysis of Nestlé's marketing activities four major characteristics of the Brazilian market have been discovered.

- The product portfolio in the Brazilian market does not include many of the healthy products demanded in Western European markets. The reason for this limitation is the still widely lacking health consciousness of Brazilian consumers. Despite the fact that Nestlé is increasingly launching health related product concepts in its home market(s), Brazilians primarily demand the traditional Nestlé products (which on average contain high amounts of sugar, additives etc.)

- The price function has shown that prices between Switzerland and Brazil do not differ significantly. This is due to relatively high production costs, the currently strong Real and the fact that singular Nestlé products do not account for a big share of people's incomes. As a consequence the Brazilian price level can be considered as comparatively high and almost similar to countries such as Switzerland. Even though both countries feature completely different country compositions (such as especially per capita income), Nestlé manages to sell its products for similar prices.

- The placement activities have demonstrated that the social structures of Brazil and especially the still considerable poor population require alternative placement techniques. A sales force of 7,500 fieldworkers distributes Nestlé products in poor areas where access to the traditional channels such as supermarkets is scarce.

- The analysis of the promotion activities have revealed that Brazilian consumers can be reached through similar means as European ones. Moreover, advertisement contents related "Western Values" seem to be accepted in Brazil just as in Nestlé's home market.

4.1.7. Key Outtakes

From these insights it can be concluded that especially two characteristics in the Brazilian market force Nestlé to localize its marketing activities. The first is the lacking health consciousness which detains Nestlé from launching new health related products in Brazil. The second is the still prevalent poverty (a difference in social structures) which forces Nestlé to redesign its distribution strategy. Nestlé has found a manner to adjust to these two variables in a flexible and innovative way, so the future growth prospects seem promising in the medium and long run.

4.2. Volkswagen Case

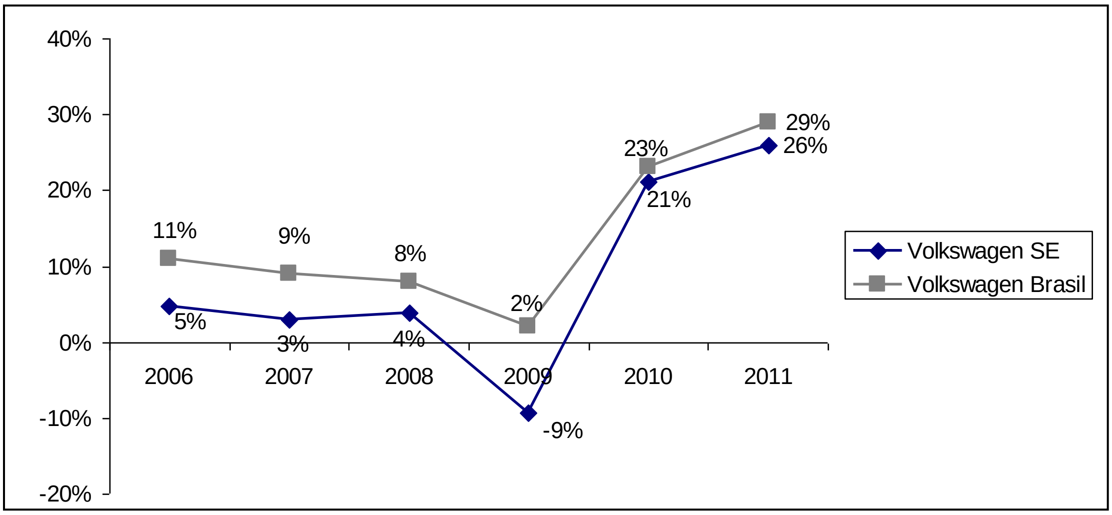
4.2.1. Introduction

VW is Europe's biggest car maker and the second biggest automotive company in the world as of 2011. With total sales of more than 8 million vehicles in 2011 (amounting to 159.3 billion €), the only bigger rival remains US American car giant General Motors (GM) (Welt, 2012). The company possesses 13 different brands with numerous prestigious names such as Porsche, Lamborghini or Bentley and is on track of becoming the biggest and most profitable car company by the end 2012 or 2013 (Daemon, 2011). VW looks back on a successful history of more than 70 years and has been present in all major growth markets during the last decades (see Appendix 5).

The Brazilian subsidiary of VW was established in 1953 and the first factory was created in 1959 for the production of the "VW Beetle" or, as Brazilians call it the "Volkswagen Fusca". After more than 50 years of fruitful German-Brazilian collaboration the company now holds a solid market share of 21.5% and operates six production entities in the country (*Anchieta, Curitiba, Resende, São Carlo, São Paulo and Taubaté*) (VW, 2012a). VW has especially grown through its strong presence in emerging markets and Brazil in particular has made up for the gradually declining demand in its core markets (such as e.g. Germany). According to VW CEO Martin Winterkorn (2012) Brazil will be a corner stone for future growth (especially in the aggressive growth 2018 plan) and the company will therefore invest 3.4 billion € until 2016 (VW, 2012). Brazil already accounts for almost

5% (8 billion €) of VW's worldwide sales right now and has been growing faster than the mother company for the last years as illustrated by the following graph.

Picture 11: *Sales Growth of Volkswagen Brasil in comparison to Volkswagen SE (in local currencies)*



Source: Volkswagen (2012).

These impressive growth rates are reflected by the positive economic development of the Brazilian market. The enhanced social mobility and the rapidly growing C-class have triggered an unprecedented car demand and Brazil is expected to become the world's third biggest automobile market after the US and China by the end of 2015 (Handelsblatt, 2012a). VW with its highly diversified portfolio (from luxury to low-end) is in a very competitive position to fulfill the many new wishes and dreams of Brazilian social movers (Financial Times, 2011).

VW's success in Brazil is not only due to the generally bright prospects of the Brazilian automobile market. The company has deliberately adjusted its activities to the local conditions in a sophisticated way (Baehnisch, 2008). VW has localized major parts of its supply chain from sourcing and R&D to production and marketing (Lang & Maurer, 2010) in Brazil. As a consequence new, localized products (see section "Products") have been developed that do not exist in VW's traditional home markets (the TRIAD markets). Since Brazil has become one of the major growth regions, the company is systematically adjusting to the specifications of this particular market.

The analysis is limited to the actual “Volkswagen” brand in this paper. The strategies of other brands within the VW-family such as Audi or Skoda are very diverse and including them would dilute the conclusions drawn for the VW brand. Especially in the context of marketing variables such as price, image or brand positioning play an important role. These variables differ significantly between the respective brands (Burkhardt, 2006), so it seems logical to limit the research to a single brand.

4.2.2. Product

4.2.2.1. Evaluation of the Product Function

The Brazilian product portfolio of VW comprises 21 models ranging from small city cars such as the Gol to large jeeps such as the Amarok or the Saveiro (VW 2012c). This is considerably less (19%) than in its home market Germany, where 25 models are available (Volkswagen, 2012b). In Germany VW customers can choose from a higher variety and the newest models (e.g. the “VW up!”) are launched first in Germany and Europe.

Comparing the models of VW’s home market to those offered in Brazil, it turns out that only 9 models are identical in both countries. Consequently, 16 models available in Germany are unavailable in Brazil and 12 models available in Brazil are unavailable in Germany. Some of the most popular cars in Brazil such as the “Gol”, the “Voyage”, the “Kombi”, or the “Amarok” do not exist in Germany in this form (or under the VW car-brand such as e.g. the Amarok) and have been primarily created for the Brazilian and other South American markets. On the other hand, some of the best selling cars in Germany such as the “Multivan”, the “Scirocco”, the “Sharan” or the “Eos” have not been transferred to the Brazilian market at the moment. The VW product portfolios in the two countries thus only overlap partially and according to industry experts VW has created an entirely different product strategy in Brazil. Since Brazilian consumers have different demand structures, some products available in Germany are not adequate in Brazil and vice versa. Due to a lack of an extensive infrastructure in Brazil’s rural areas (country composition) for example robust and long lasting vehicles are required. Products such as the “Amarok” or the “Saveiro” (not available in Germany) perfectly fulfill these requirements and thus, match with the local conditions in Brazil. In Germany, where infrastructure and logistics are at a different stage, there is no such demand and consumers tend to prefer faster and smaller cars, that at the same time feature a low fuel consumption (partly thanks to the high petrol taxes in Germany).

In addition to the fact that VW designs distinct products in Brazil, a closer look at those products available in both countries reveals that even the seemingly identical products differ significantly. The design is often different, the options for motorization are limited in Brazil, the interior equipment is far from similar and even the model sizes are not the same. In order to illustrate this important observation, it seems interesting to compare a single product frequently sold in both countries, the "Golf".

- **Design:**

  Picture 12: *Golf in Brazil compared to Golf in Germany*

Source: Volkswagen (2012).

- **Motorization:** in Brazil only two options for motorization exist, a 1.6 liter engine or a 2.0 liter engine (gasoline with ethanol), both with a traditional 5 gear mechanism (all engines are based on the Golf III from 1991 to 1997). In Germany on the other hand, four gasoline engines of 1.2, 1.4, 1.6 and 1.8 liters and three Diesel engines of 1.4, 1.6 and 2.0 are available (all engines are newly developed for the current Golf VI). Within these engine options, consumers can furthermore choose between a 5, 6 or 7 gear mechanism.

- **Interior configuration:** the Brazilian interior design is very limited in comparison to Germany. Consumers cannot choose between different dashboard colors or types and only two leather colors are available. In Germany consumers are able to obtain almost any kind of color for their dashboards, materials and leathers they may wish and special

- **Size:** the Brazilian golf only exists in one size with 5 doors (3.9 meters), whereas the German golf is obtainable in two sizes with 5 or 3 doors (4.2 to 4.4 meters).

These insights clearly demonstrate that even the products available in both countries differ considerably. The "Golf" is only the most prominent example of product differentiation, but this principle is applicable to many other popular models such as the "Passat", the "Touareg" or the "Tiguan". According to Brazilian company representatives the products offered in Brazil, are generally featured by a poorer quality and the product configuration options are less abundant. Many of the models' elements (especially engines) in Brazil still belong to earlier generations and do not contain the most recent innovations/improvements existing in VW's home markets (especially Germany). This strategy of offering so called "stripped-down" products (European products with less options and a poorer quality) is intended by the company, since Brazilian consumers are generally less delicate (demand structures) than Germans (and many other Europeans) when it comes to purchasing cars. Brazilians are currently not used to the quality standards existing at VW's home market Germany and it is consequently not necessary to offer more sophisticated and simultaneously more expensive products.

Conclusion: Due to an only partially overlapping product portfolio and considerable variations among seemingly identical products in Brazil and Germany, the product function of VW in Brazil can be evaluated at Level 2 of the localization framework. The company has created several products specifically designed for the Brazilian (and South American) market and its localization activities are thus highly sophisticated.

4.2.2.2. Explanation

The observed localization patterns of VW's product function can be attributed to three major characteristics. The first is the already mentioned poor infrastructure in Brazil's country composition. In rural areas consumers have to cope with adverse conditions such as sand roads, heavy rain falls and heat. As a consequence, rural consumers demand resistant cars apt for dealing with these constraints such as jeeps ("Amarok", "Saveiro") or small and robust cars ("Parati", "Fox"). In addition to this, the roads in big Brazilian cities (*São Paulo*, Rio de Janeiro, Belo Horizonte etc.) are often in poor conditions which induces many consumers (especially the middle class) to demand reliable and imperishable car models. The “Gol” with its high wheel base for example is well suited for driving though the uneven streets of *São Paulo*’s city center without the danger of touching down on the ground every once in a while. The significantly lower cars (e.g. the “Eos” or the “Phaeton”) appropriate for high quality German (or European) highways or city roads are simply not viable in Brazil. As a result, VW only offers those cars most adequate for the Brazilian preconditions and additionally creates new ones that fulfill the specific demands of Brazilian consumers. These especially designed models only exist in Brazil and other parts of Latin America, but in no other region of the world (not even in VW’s other major growth market China). Taking this fact into consideration, it seems clear that VW is purposely localizing its product portfolio in Brazil.

The second characteristic is the already previously mentioned level of sophistication of Brazilian consumers (demand structures). Brazil has become one of the most interesting automobile markets worldwide over the last decades, but consumers are still significantly less exigent compared to OECD countries (Russo, 2011). Automobile companies do not have to offer their most recently developed products and variations in Brazil, since consumers are satisfied by a slightly outdated quality and limited product options (as can be seen by the recent growth rates of *VW do Brasil*). The Brazilian car market is still an emerging one and the newest innovations are currently not demanded. German consumers on the other hand have been spoiled by their national car manufacturers for many years and always demand the most up to date technical inventions. Despite this current discrepancy in consumer behavior, Brazilians are expected to express more elaborate wishes within the forthcoming years and carmakers will have to adapt rapidly. This development is proven by the fast growing demand for luxury cars (which are highly sophisticated) in Brazil over the last five to ten years (growth rates of up to 40% per year) (Kuhnet & Cheng, 2011). According to Brazilian company representatives VW will have to find ways of replacing its “stripped-down” versions of European models in Brazil and launch high quality products in the middle- and long run (in addition to the products uniquely developed for the Brazilian market).

The third characteristic responsible for the different product portfolio of *VW do Brasil* is the less productive and less innovative production mode in Brazil. According to industry experts the comparatively lower level of education, the substantial labor costs (in terms of worker efficiency) and the lack of modern automation are the primary reasons for Brazil’s weak competitiveness. Since VW produces around 60% of its cars offered in Brazil in its Brazilian factories, this inferior productivity constitutes a major obstacle for diversifying its product portfolio and manufacturing more sophisticated products. Factories and workers are currently not in a position to produce the technologically advanced products available in VW's home market(s). This phenomenon is true for many carmakers present in Brazil including Fiat and GM. Nevertheless, all of these companies are currently investing excessively in modernizing their production facilities in Brazil (in total 12 billion € between 2011 and 2014 and 2.3 billion € of VW) (Russo, 2011). This will eventually allow them to produce cars more similar to TRIAD standards and thus satisfy the increasingly challenging demand of Brazilian consumers.

4.2.2.3. Future Outlook

Taking these facts into consideration, it can be concluded that the last two of the three characteristics will ultimately cease to be valid. Within the next years VW will modernize its production facilities and thus be able to offer more qualitative products to a rapidly developing consumer base. The first characteristic yet will not lose its validity so soon, since improving the Brazilian infrastructure is a giant endeavor which may take considerably more time. For this reason VW will still stick to producing cars apt for the various constraints related to the poor Brazilian infrastructure (e.g. Jeeps, Pick Ups etc.).

4.2.3. Price

4.2.3.1. Evaluation of the Price Function

As previously mentioned *VW do Brasil* produces approximately 60% of the cars offered in the Brazilian market in its Brazilian factories. Consequently a distinction between cars produced in Brazil and imported cars has to be made as a means to analyze the price level differences.

<u>Cars Produced in Brazil</u>

The prices for cars produced in Brazil can be considered significantly higher than in Germany (calculating on an exchange rate basis of June 2012). Looking at the price of a basic “Golf” in both countries, it turns out that a price gap of 19% exists: the “Golf” has a base price of 16,900 € (approximately 42,500 BRL$) in Germany compared to a 52,900 BRL$ base price in Brazil. This price difference is sizable and considering that the “Golf” in Brazil has a lower quality than in Germany (see Product chapter) seems even illogical. Other cars produced in Brazil such as the “Polo” or the “Voyage” display similar or even greater price gaps (of up to 35%). In some cases (including special interior design etc.) his difference can reach up to 60%.

In addition to this, VW Germany offers extensive discounts on the original price of up to 17%, whereas Brazilian consumers generally have to pay the full price with some minor exceptions (original price reduction of up to 6% are granted during low selling periods). The VW models produced in Brazil are consequently way more expensive than in Germany and consumers pay a substantial premium in Brazil. According to company representatives the reasons for the higher prices charged in Brazil derive from the current strength of the Brazilian BLR$, the higher production costs and the higher interest rates for leasing and car financing in Brazil.

Imported Cars

Imported cars generally feature an even higher price gap than cars produced in Brazil. Various import taxes (compare chapter 4.1.3.) and specific tariffs on automobiles drive prices up to levels unheard of in Europe. In 2011 the Brazilian government has increased tariffs on imported cars by 30% in an attempt to reduce its current account deficit (e.g. with countries like Mexico) and force carmakers to shift more production to Brazil (Bloomberg, 2012). As a consequence, automobile prices have risen even more and Brazilian consumers are confronted with price levels unthinkable in Germany or other European states. The “Passat” for example – a popular car in both countries – has a base price of 24,775 € in Germany, whereas Brazilians are charged 122,450 BRL$ (equivalent to 48,980 €) for the same car (which even has less options). Similar price premiums are also common for other VW models imported to Brazil. The spacious “Touareg” sport utility vehicle (SUV) costs 254,139 BLR$ (equivalent to more than 100,000 €) in Brazil and only 48,625 € in Germany. Imported cars are on average at least 100% more expensive in Brazil than in Germany (and Europe) and the already mentioned discounts granted in VW's home market are not available in Brazil (or at least not in the same percentages and frequencies).

Summary

Cars produced in Brazil as well as imported cars are priced significantly higher in Brazil than in Germany. The fact that price premiums of between 19% and more than a 100% are common clearly indicates that VW is running a completely different pricing strategy in Brazil than in its home market. This estimation is underpinned by the lack of an extensive Brazilian discount strategy (which is available in Europe). VW manages to sell the same products (and often even the same products with a lower quality) for a considerably higher price in Brazil despite the fact that Brazilians on average only dispose one fourth of the income German consumers possess (World Bank, 2012).

Admittedly prices vary with changes of the exchange rate of the Brazilian currency. Yet this only applies to those products actually manufactured in Brazil: if the BLR$ for example depreciated by a 30% or more, the price levels for cars produced in Brazil would be similar to the one in Europe. Nevertheless, imports would still be calculated in € or US$ and the enormous import tariffs would make imported cars even more expensive. This scenario is currently not the case and the Brazilian BLR$ has remained quite stable over the last couple of years (and has even significantly appreciated since 2004). Consequently it can be assumed that the pricing function is substantially localized.

Conclusion: Due to price premiums of up to a 100% in Brazil VW's pricing function can be evaluated at Level 2 of the localization framework. The reasons for the entirely different price level of VW products in Brazil range from currency related factors (exchange rates, interest rates) and productivity issues to import tariffs and taxes.

4.2.3.2. Explanation

According to company representatives the prices in Brazil are boosted by three interdependent variables – Brazil's strong currency, its considerable production costs and its comparatively high interest rates. The Brazilian BRL$ has been unprecedentedly strong within the last years due to Brazil's high exposure to raw material exports, Brazil's stable monetary policy as well as its fiscal discipline (Royal Bank of Scotland, 2012). The continuously strong performance of the BRL$ has lifted Brazil's price level to a previously unimaginable stage. As a consequence, production costs in Brazil remain high on an international level and VW's products manufactured in its six Brazilian factories are becoming increasingly expensive. In addition to the high currency rate the low productivity (see chapter 4.2.2.2.) and the accordingly high production costs are elevating prices.

These two variables combined (high currency plus high production costs) are tarnishing Brazil's international competitiveness and force the government to resort to protectionist policies such as raising import tariffs (Armendariz, 2012). By insulating the Brazilian car market through these taxes, the government is trying to save jobs and investments in Brazil, since otherwise cheap US American, Japanese, Chinese, Mexican and European imports would immediately make a production in Brazil unsustainable as well as unnecessary. In early 2012 for example the country has increased import taxes on cars (which have not been produced in Brazil) by 30% in order to protect its domestic automotive industry (Bloomberg, 2012a). According to Mauro Borges Lemos (head of the Brazilian Industrial Development Agency) "The tax was used as an emergency brake" and should "speed up investments" of foreign car makers in Brazil (Bloomberg, 2012a). In other words, Brazil welcomes all car manufacturers as long as they produce in Brazil and contribute to the competitiveness of the Brazilian economy. Since Chinese companies such as Jac Motors or Chery have not been doing this so far, the government selectively punishes them by raising taxes. This policy in turn drives up unit prices and makes cars generally more expensive. As a consequence, the prices of imported cars are frequently offered at a 100% premium and sometimes even more.

Apart from this, the third variable – high interest rates – has a major impact on prices. Cars make up for a large share in consumer's incomes, so car leasing or financing are common practices in Brazil as well as in Germany. The interest rates for such purchasing models are generally linked to the respective currency's inflation. The higher the inflation in a certain country, the higher the corresponding interest rates (Stumm, 2011). Comparing the inflation data of Germany - around 2% over the last years with Brazil - around 5% over the last years, it turns out that Brazilian interests are significantly higher than German ones (Global Rates, 2012). Therefore, the discounted interest rates are much higher in

Brazil and consequently, the respective product prices increase in general. This effect depends on the absolute price and the contract period of the respective leasing or financing agreement, but may range from 20% to 50% of the original car price according to industry experts.

The concurrence of these three variables forces VW to sell its products in Brazil at considerably higher prices than in its home market. Nevertheless the question remains how Brazilian consumers manage to pay for these high priced vehicles given their inferior per capita income compared to Germany. How can VW charge higher prices for qualitatively worse cars in a country with a per capita income of barely 10,000 US$ per year? Brazilian company representatives gave an answer with two dimensions to this question. First of all, the central target population of VW is concentrated around the richest Brazilian income classes (A-, B- and C-classes). The upper 50 to 70 million Brazilians have already reached similar income levels as Western European consumers and consequently have the economic means to buy similar products (even if they are sold at a 30% or 40% premium). Secondly, the prices offered by VW are competitive in the Brazilian market context. Since all carmakers face the same constraints in Brazil, the average price level is simply higher.

As a result, Brazilian consumers (have to) accept the high prices of VW products and frequently incur debts (e.g. leasing, car financing) in order to possess the most prestigious vehicles (such as the imported SUVs “Touareg” and “Tiguan”). In fact Volkswagen Financial Services is one of the biggest financial services providers in Brazil granting credits and other debt related constructions to less wealthy consumers who want to purchase a new car (as brought forward by company representatives).

4.2.3.3. Future Outlook

VW’s pricing strategy in Brazil thus differs significantly from its home market. Nevertheless it seems important to emphasize that especially external factors (taxes, currency related issues etc.) drive up car prices. The original prices are not aimed at completely different costumer segments in Brazil as opposed to Germany. According to company representatives the different pricing approach is predominantly a result of the general conditions in Brazil and the actual products are designed for consumers with similar preferences, wishes, and economic possibilities. As earlier mentioned Brazilians are very consume-oriented and a new car is the ideal status symbol. Price consequently does not seem to be the most decisive factor for them and companies such as VW manage to sell cars at a significant price premium.

The fact is that Brazilian prices are so high that carmakers are achieving some of their highest margins in Brazil and VW as one of the tier one producers is currently gaining sales margins of up to 30% (and for premium cars even more). These high margins as well as the high costs may diminish in the long run, since more and more competitors (e.g. from China) are entering the highly promising car market in Brazil (partly with dumping prices). Through investments in the production facilities and low-cost pressure from outside, prices are expected to decrease in the future.

4.2.4. Placement

4.2.4.1. Evaluation of the Placement Function

A) Placement in Brazil

Placement in Brazil works via two basic channels: direct distribution through VW itself and distribution through regional (and sometimes supraregional) car dealers. In the Southern regions VW operates an extensive direct distribution system (thanks to the location of its factories) next to a dense network of dealers. In all major cities at least one VW branch subsidiary is present and consumers are able to buy their car directly at VW. Moreover, cars are sold directly at the various factories, if potential buyers have easy access to it. For interested consumers VW even offers a tour through the production facilities before picking up a new car (e.g. in *São Bernado* near *São Paulo*).

In the Northern regions (upwards from *Resende*), where no VW production facilities exist, car dealers are the principal means of distribution for the company. Given the fact that VW collaborates with a total of more than 600 contracted car dealers plus up to 500 regional independent dealers in Brazil, indirect distribution is a major channel for distributing cars amounting to approximately 80% in total. The advantage of this high dependence on dealers is that VW does not have to build up and maintain an own distribution network in all of Brazil's vast territories. Dealers with local knowledge cover a big part of the demand for VW cars without the need of creating elaborate own distribution structures. In addition to this, VW's dealer network is well suited for repair services and within hours or one or two days broken cars can be transported to a mending garage almost anywhere in the country (except for the most remote places).

Given the size of Brazil and its gigantic road systems, the density of VW branch subsidiaries and car dealers is comparatively low. Especially in rural areas and in the Northern regions finding a VW dealer or representative is difficult and there are huge quality gaps between rural and urban car services providers. The whole distribution network consisting of dealers and direct placement does not reach all potential consumers at the moment and retrieving a car may require a considerable effort in the less developed regions of Brazil.

VW is currently acquiring some of its dealers in order to obtain a better control over its distribution activities and ensure quality and service. This is especially the case for the bigger cities such as *São Paulo* or *Rio de Janeiro*, where European quality standards are increasingly demanded by costumers. Moreover, VW is eliminating the intermediary profits by buying its dealers, which eventually increases margins and profitability. In addition to that, this strategy allows the company to attain an extensive own distribution network by merely resorting to already existing structures. The costly effort of creating own distribution reticulations can be evaded by simply acquiring locally diversified dealers.

B) Placement in Germany in Comparison to Brazil

VW Germany has a different distribution approach with three separate channels – direct distribution, distribution through major dealers and distribution through smaller regional dealers. These three channels are generally denser than in Brazil and feature different proportions.

Only around 70% of sales are generally carried out via dealers and the company possesses an elaborate own distribution network. In every major city there are extensive VW subsidiaries and most potential consumers have the possibility to negotiate directly with the company instead of a dealer. The high density of VW branch offices is due to the geographical difference between Germany and Brazil. With a surface area of only 357 thousand square kilometers (as opposed to 8,514 thousand square kilometers in Brazil) (World Bank, 2012) and equipped with one of the most modern and rigid infrastructure systems in the world, it is significantly easier to distribute cars throughout Germany (country composition). VW uses trucks, ships and trains to deliver cars to regional consumers and maintains a huge distribution center in its global headquarter Wolfsburg. The so called "Autostadt" (German for "Car City") can be compared to a theme park where car museums, fairs, restaurants etc. primp the purchase of a new car. The following pictures illustrate that buying a VW car is an "experience" for consumers that head to Wolfsburg to pick up their new vehicle.

Picture 13: *The "Autostadt"*

Source: VW, 2012.

Buying a VW becomes a whole day activity and consumers are invited for a tour around the "Autostadt" with professional guides who show factories and museums and introduce the newest models to costumers. VW relates the purchase of a car to an "emotional experience" in order to create a higher brand loyalty and a generally positive feeling towards the company. Not only Germans use the opportunity to shop their car "at site", but many other Europeans such as Dutch, Belgian, Danish, Swiss and French VW fanatics enjoy visiting "Autostadt". VW has invested approximately 430 million Euros (VW,

2012) in creating this car city that resembles a theme park and even people who do not want to buy a car may have a look at the newest inventions of VW or the various brand pavilions of other attractive brands of the VW family such as Bentley, Bugatti or Lamborghini. This emotional part of buying a car lacks in Brazil (just as in most other countries except for China) and VW is consequently operating a different direct distribution strategy in Germany compared to Brazil.

Furthermore the indirect distribution strategy of VW Germany is significantly different from *VW do Brasil*. The company collaborates with several (between 10 and 20) major car dealers that are granted exclusive contracts (such as e.g. Mahag in Munich or Auto Wichert in Hamburg). These dealers have high quality standards and represent VW as a company and brand in major urban agglomerations. Additionally, several hundred small dealers (between 1,000 and 1,500) exist in the less populated areas or smaller cities of Germany. These medium sized companies complete the already well sophisticated distribution network of VW throughout the whole country.

In economically harsh times many of the smaller dealers encountered considerable difficulties (especially during the financial crisis of 2008/9) and were often close to shutting down operations, since anticipated car sales did not take place. In these cases VW frequently intervened and acquired their assets as a means to maintain the dense distribution network alive. Meanwhile an approximately 45% of all small dealers belong to VW and the company is currently intensifying its acquisition activities in the market. The reason for buying dealers in Germany is thus primarily the maintenance of the existing distribution network as opposed to control or quality improvements (which often it is the case in Brazil).

Conclusion: Due to a <u>different country composition</u> (size, infrastructure etc.) VW is operating a significantly more sophisticated distribution network in Germany in comparison to Brazil. The direct distribution system is more extensive and the regional dealers are more numerous (and increasingly owned by VW). In addition to that, VW relates an “emotional experience” to the car distribution (in the “Autostadt”) in Germany, whereas Brazilian consumers are offered a less exciting setting for picking up a new car. <u>Level 2</u> of the localization framework is consequently the most adequate evaluation.

4.2.4.2. Explanation

As found out in the previous paragraphs VW is using a less intricate distribution network in Brazil than in Germany. The big dealers do not exist in the same form in Brazil, the emotional element of picking up a new car is considerably less exciting, and the whole distribution network is less dense. As previously stated the reasons for this are related to the different country composition in Brazil. One factor is definitely the sheer size of Brazil which makes it much harder to operate a similarly complex distribution network as present in Germany. Even though the major urban agglomerations are concentrated in the Southern regions and Coastal areas, the distances and dimensions are not comparable to Germany.

Another important fact is that Brazil's automotive market is simply not as developed as Germany's. According to industry experts the car density in Brazil is currently at around 130 per 1,000 people, whereas in Germany approximately 540 cars per 1,000 people exist (as brought forward by industry experts). The German distribution network has been developed within a much longer time period triggered by a historically much higher demand. Moreover, the car was invented in Germany by Carl Benz and Gottlieb Daimler in the late 19th century and the country had an approximately 70 year head start for creating efficient and elaborate distribution structures. VW is a German company and logically operates a very sophisticated distribution network in its home country.

4.2.4.3. Future Outlook

Nevertheless Brazil is developing rapidly and Brazilian car sales (more than 3.5 billion last year) have surpassed Germany's recently. Distribution is a key function for participating at Brazil's growth and all car producers including VW are heavily investing in creating more efficient ways of distributing cars (as frequently stressed by company representatives). The major bottle neck is Brazil's imperfect infrastructure which delays supply/delivery and creates vast inefficiencies along the whole logistical chain. This company external factor is not likely to be amended in a short time period, so it will take effort and several years of infrastructure development for Brazil to become more similar to European structures.

4.2.5. Promotion

4.2.5.1. Evaluation of the Promotion Function

Just as it was the case for Nestlé, VW's promotion activities do not differ significantly in Brazil in comparison to its home market. Considering the fact that in 2011 VW spent an estimated 230 Million € in promotional activities in Germany and approximately 250 Million € in Brazil, this estimation seems sound (Auto.de, 2012). As previously mentioned VW is selling slightly more cars in Brazil than in Germany, so the difference in spending is due to the proportionally higher sales. Nevertheless it has to be emphasized that advertisement spending increases in years of frequent product launches (especially if a new model is introduced to the market as opposed to an update of an existing one).

Furthermore, the actual instruments used are similar in both countries. Frequent TV, newspaper, poster and internet advertisements are used in Brazil as well as in Germany to promote sales and brand publicity. By using these channels VW reaches all potential consumers in Brazil and in Germany (or Europe), since these media are the most important information sources in both countries. In addition to these more conventional advertisement types, VW is increasingly using the instrument of sponsoring. Since 2009 VW is one of the main sponsors of the Brazilian *Seleção* (World Cup Team) and actively engages in sport related sponsor activities. In Germany the company even owns a football team – the 2009 German champion VFL Wolfsburg. Moreover, art related sponsoring is considerably increasing and in Germany (e.g. HypoVereinsbank exhibition in Munich) as well as in Brazil (e.g. Trianon Masp exhibition of Sigmar Polke in *São Paulo*) VW sponsored exhibitions or concerts are becoming an integral part of VW's marketing activities.

The actual contents of the advertisement activities are also similar and values such as reliability, quality, fun or family are common in both countries. The following examples for advertisements illustrate this fact.

Picture 14: *Advertisement activities of VW in Germany compared to Brazil*

Germany	Brazil
	
	

Source: VW, 2012.

The examples show that for the advertisement of the same cars VW uses similar images. The upper two pictures demonstrate the reliability of the "Touareg". Even in the most challenging environments (a mountain cliff in Germany and the African steppe in Brazil) the "Touareg" seems to be an agile and accommodative vehicle. The lower pictures of the "Golf GTI" also show similar images and the fun related aspects of driving this sportive version of the "Golf" are emphasized (such as driving through water in Germany and driving through the mountains in Brazil). The way VW approaches consumers in its advertisements thus seem to resemble in the two countries. Of course, the advertisement of the single product differs, since each product is directed at different costumer segments. Nevertheless, costumer segments between Brazil and Germany are similar for the respective products and therefore similar advertisement techniques are used in both countries as suggested by German as well as Brazilian company representatives.

The reasons for this similar promotion strategy are VW's wish to create a globally similar appearance (just as Nestlé) and the fact that the Brazilian consumer behavior does not differ too much from the German or the European one in terms of car purchases.

Brazilians as well as Germans aspire good quality cars (including reliability) with attractive brands and obtain information through similar channels. Consequently, VW does not see the need to localize this business function in a significant way.

Conclusion: Due to similar consumer behaviors in Germany and Brazil regarding car purchases, VW's promotion activities can be evaluated at Level 0 of the localization framework. Since consumers in both countries can be reached via similar instruments and advertisement contents, there is no apparent need to localize promotion activities. Consequently, VW is using a closely related promotion approach for Brazilian as well as German consumer segments.

4.2.5.2. Explanation

The resemblance between promotion activities in Germany and Brazil is linked to cultural aspects. As earlier mentioned VW's values are easily transferrable to the Brazilian market and Brazilian consumers embrace VW's advertisements similarly to Germans. The information channels are basically identical (TV, Internet, newspapers, sponsoring etc.) and consumer's wishes in terms of cars can be considered similar. Due to this cultural proximity in the case of automobile purchases, a similar promotional approach seems most adequate as a means to convince consumers to buy VW products.

Moreover, VW has a long history in Brazil and deliberately carved its image and reputation in the country for many decades. Hence Brazilian consumers are used to the VW values from an early age on and according to industry experts the VW brand belongs to one of the most famous ones in the country. VW does not have to explain itself in Brazil thanks to its more than 60 years of market presence and can focus on boosting sales via advertising in a similar way as in Germany. The global scope of the VW brand additionally cultivates similar advertisements around the world. According to German company representatives the powerful trend of globalization is flattening out cultural differences, and a singular branding approach seems most adequate for this development.

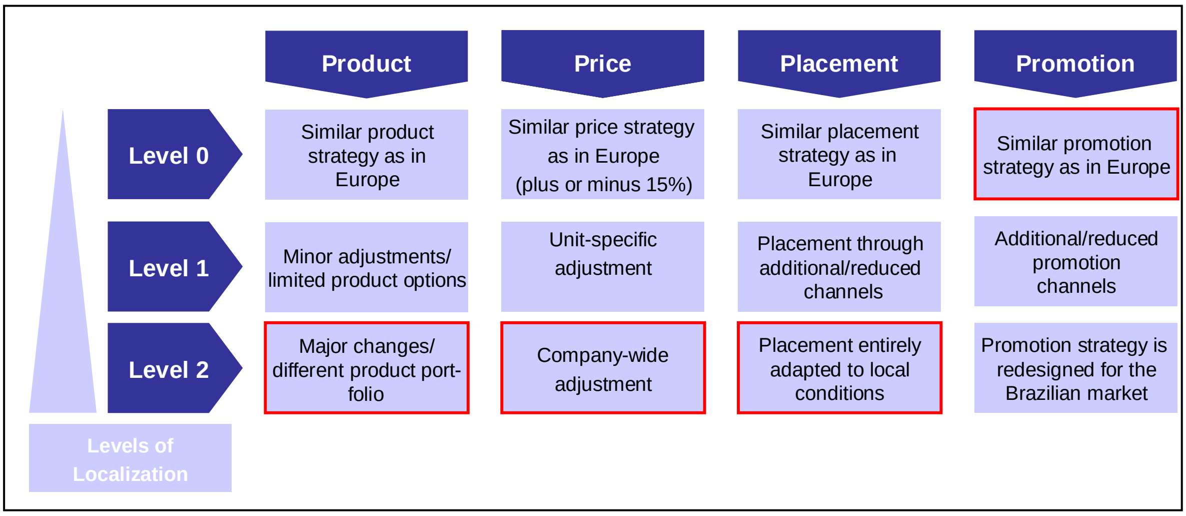
4.2.5.3. Future Outlook

In the future it appears that VW will continue to run its currently successful promotion strategy. No Brazil-specific adjustments are planned and the establishment of globally accepted values and brand images (also including VW's other brands such as Audi, Skoda, etc.) will be the major impulses for its promotion strategy. As noted by industry experts this applies to many other automobile companies successful in Brazil such as Fiat, GM or Toyota. Consequently the strategy pursued by VW is not exceptional or unique in the Brazilian market.

4.2.6. Conclusion

The analysis of VW's 4 Ps has revealed that the company is remarkably localizing its marketing activities in Brazil. The different country composition combined with different aspects of consumer behavior induces VW to design different approaches in order to successfully operate on the Brazilian automobile market. In comparison to Nestlé VW runs generally more elaborate localization activities and especially the establishment of a considerably different product portfolio emphasizes VW's complex ambitions for local adjustments in Brazil. The following table gives an overview of these practices and integrates the insights of the previous chapters in the localization framework.

Picture 15: *Localization Framework of VW*



Source: Author's own design derived from Matthies (2011) and Lang & Mauerer (2008).

The following characteristics of the Brazilian market have been identified ad localization drivers for VW:

- Brazil's poor infrastructure requires robust and sturdy cars, so VW designs a different product portfolio including Pick-Ups and similarly deployable vehicles. Moreover infrastructure is a major bottle neck for the development of a more sophisticated distribution network.

- The Brazilian consumers still articulate less exigent and sophisticated wishes compared to OECD countries. Therefore VW often sells stripped-down versions of its car models and its newest innovations generally reach Brazil after a successful launch in TRIAD markets.

- Due to a less developed production mode (especially in terms of worker education and factory automation) in the Brazilian market, Brazilian factories are currently not in a position to produce the more intricate models available in Europe. Moreover, the comparatively less efficient Brazilian production facilities boost production costs and thus have a significant impact on product prices.

- The continuously high exchange rate of the BLR$ is causing losses in competitiveness for the Brazilian automotive industry. As a consequence, the government is resorting to protectionist measures, in order to save jobs and keep investments in Brazil. This in turn is driving up the prices for car imports to incredibly high levels.

- The high interest rate in Brazil (due to a higher inflation compared to Germany) raises the prices for leasing and car financing. As a consequence, car prices are significantly higher than in Germany.

- The enormous size of Brazil makes it difficult to establish a dense distribution network similar to Germany. Therefore VW is heavily relying on sales through independent dealers, who create a nationwide distribution system without an active VW assistance.

4.2.7. Key Outtakes

Taking all these observations and findings into consideration, it turns out that three major trends are recognizable in Brazil: Consumers demand different cars as opposed to

Germany due to a different infrastructure and still less exigent consumer needs; Brazilian prices are significantly higher than in Germany, since high production costs and excessive import taxes boost unit costs; the distribution network in Brazil is less developed thanks to infrastructure and size differences between the two countries. The conclusion is consequently that VW is adjusting in an innovative and flexible manner to the different conditions present in Brazil.

4.3. Case Discussion

The two cases of Nestlé and VW have demonstrated that several characteristics of the Brazilian market require special adaptations from multinational companies. Since the two companies chosen for the analysis operate in different industries, some overlapping and some diverse trends have been investigated. In the following the most important "localization-drivers" shall be summarized, in order to give a conclusive overview on the most important characteristics which induce multinational companies to adjust their marketing activities to the Brazilian market.

1. Unequal Social Structures and Consumer Behavior

On the one hand the growing upper social classes (A-, B- and C-classes) are articulating similar wishes and needs as present in countries such as Switzerland or Germany. This is proven by VW's and Nestlé's success in Brazil over the last years as well as their similar promotion activities in their respective home countries compared to Brazil. Nevertheless, many Brazilian upper class consumers are still less exigent and demanding compared to OECD countries.

On the other hand there is still a significant poor population in Brazil (more than 70 million people) and companies have to adjust their activities considerably in order to interact with these increasingly important social strata. Companies that sell products with low unit costs such as Nestlé have found innovative distribution strategies to reach Brazilian BOP populations. For companies with high unit costs such as VW the market is still limited to the upper social classes.

2. Brazilians' Acceptance of High Prices

Despite a comparatively low per capita income in Brazil (as opposed to Switzerland or Germany), Brazilian prices are surprisingly high. The country ranks among the global top four of the “Big Mac” Index and many Brazilians incur significant debts (average debt rate at 40% of incomes according to *Estadão*, 2012) in order to bankroll their increasing levels of consumption. Reasons for the high price level range from a continuously strong currency to comparatively high production costs. Nestlé charges similar prices as in its home country Switzerland and VW even achieves price premiums of between 20% and 100% in comparison to Germany (for qualitatively worse cars). Brazilian consumers seem to accept these prices without complaining even though their disposable income on average is significantly below Germany’s and Switzerland’s. Multinationals are exploiting this apparently stoic attitude towards prices and attain some of their highest margins in Brazil.

3. Brazil’s Size and Poor Infrastructure

Due to Brazil’s size and its comparatively poor infrastructure, multinationals have to adjust their activities especially in terms of distribution. Nestlé’s “fieldworkers” and VW’s high reliance on regional car dealers are two company-specific adaption policies in this context. Building the identical structures of the respective home country in the culturally and socially diverse Brazilian territory is simply not feasible and alternatives have to be sought.

4. Brazil’s “Emerging Consumer Strata”

Brazil is a rapidly developing economy and the country can look back on a highly successful growth history especially during the last 15 years. Within few years the country will advance to the top 6 economies worldwide. Nevertheless many consumers in Brazil are still less demanding or exigent in comparison to their European counterparts. This is impressively demonstrated by VW’s product strategy: The company is selling qualitatively worse products (older technique, less options) for higher prices and consumers are currently not sufficiently self-confident to demand better products and lower prices. In Europe on the other hand the “more for less” or “avarice is good” principles are shared by a growing number of consumers (McKinsey, 2011).

Moreover, since the Brazilian consumer base is still “emerging” some of the trends existing in Europe are currently not dominant in Brazil (such as e.g. the health trend in Europe). Nestlé for example does not launch its newest health products due to the lacking demand of the only recently evolving consumer base in Brazil.

4.4. Conclusion

Social factors, infrastructure and country size related issues (such as infrastructure) as well as the fact that the Brazilian consumer strata are still in a developing stage have been identified as the main reasons for localization. The high price level has been determined as an additional localization driver for multinationals operating in Brazil. Given the huge gap of per capita income between Western European countries or the US and Brazil this surprising characteristic of the Brazilian market was previously not expected. The partially significant price premiums charged by Nestlé and especially VW seem paradox in the light of Brazil’s social structures which includes BOP consumers.

The existing localization strategies of Nestlé and VW have clearly demonstrated that local knowledge and adjustments are key prerequisites for a sustainable success in the Brazilian market. Without profound insights into the complex Brazilian infrastructure, its social dynamics, its income disparities or its purchase behavior (especially in terms of pricing) the analyzed MNCs would not be current market leaders in Brazil. In spite of the accelerating globalization trend across the globe different countries still feature different cultures, mentalities, traditions and behavioral patterns. Brazil displays different traits and attributes in comparison to Switzerland or Germany due to its unique history and country composition. It seems vital for MNCs to deeply understand these differences and to align its operations accordingly.

This paper has shown that Nestlé and VW have recognized the relevant characteristics of the Brazilian market for their respective businesses. Based on this understanding both companies have created innovative approaches and strategies that allow for an optimal alignment of the business functions in question. Some of the functions such as especially promotion did not require any significant transformations. Others such as the distribution function of Nestlé or the product function of VW were very different in comparison to the relative home market. This behavior indicates that MNCs should first understand the most important trends, characteristics and dynamics of a given market and then analyze which of the various business functions should be adjusted or optimized. This process may take a long period of time and necessitate a lot of resources as well as local expertise and knowledge. Nestlé with a presence of more than 90 years and VW with a presence of almost 60 in Brazil years have managed to align their strategies over time and currently belong to some of the strongest and most successful international companies in Brazil.

4.5. Implications

The theoretical contribution of this work has two dimensions. In the first place, a thorough analysis of the localization features of the marketing mix has not been carried out by other scholars so far (Matthies, 2011). Consequently, the insights conveyed in this paper may help to understand additional country-specific factors that influence localization strategies from a market oriented point of view. The research may thus be considered as an extension of the current research on localization related topics. Moreover, the localization framework developed in order to analyze the two cases may serve for future investigation. The increments suggested in this paper can be used for possible analysis in other countries with different companies. Localization seems to be an interesting field of study and especially in constellations where the cultural gap between home and host country are even more significant than in the cases discussed, a theoretical framework allows for a neutral and objective mode of analysis.

This paper links management/marketing theory to practical experiences of internationally successful companies. Therefore, the findings may also be interesting for potential practical applications. Other multinational companies present in Brazil may experience similar constraints and advantages in the Brazilian market and might be intrigued by how their competitors deal with the conditions existing in the growth market Brazil. Furthermore, companies that are thinking of entering the Brazilian market could use the analysis' outcomes and observations for determining the right configuration of their respective marketing mix during a potential market entry. Especially the insights about pricing and consumer behavior can be beneficial, in order to find a suitable setting for a successful market entry strategy. Consequently, the experiences of Nestlé and VW in Brazil may be useful for many companies interested in the Brazilian market. The two companies have a long and successful history in Brazil and may serve as best practices examples for other market participants.

4.6. Limitations

Since only two companies have been analyzed in this paper, it seems problematic to generalize the attained results. Nestlé and VW are two leading enterprises in their respective industries, but competitors may find different ways to adjust to the peculiarities of the Brazilian market. Moreover, companies in other industries than those discussed in the two cases possibly encounter additional or diverging conditions in Brazil that require different adaption strategies.

Another source of a potential bias may arise from the market-oriented research method. Companies may adjust their activities motivated by other factors than the existing market features such as e.g. supply chain related issues as suggested by Matthies (2011). Hence, the analyzed localization practices may also be the consequence of topics such as sourcing, R&D or logistics.

Furthermore, most of the insights displayed in this paper reflect the personal experiences of company representatives and industry experts. These opinions are naturally subject to personal bias and have to be evaluated with care. Nevertheless, since five respectively six people (including external industry experts) per company have been interviewed, the risk of personal bias could be reduced significantly.

4.7. Future Research References

Generally speaking the characteristics of the Brazilian market observed through analyzing Nestlé's and VW's localization strategies only display a part of the whole picture. In order to compass a more balanced view on the various localization drivers in Brazil additional companies as well as additional industries have to be examined. Consumer goods, financial services, textile industry (fashion) or industrial goods would be further interesting fields of research in the context of localization. By including additional business areas and the experiences of additional professionals as well as industry experts a more global pattern of globalization and its underlying reasons could be drawn.

Moreover, the history of localization in Brazil would be another rewarding area of research. When did companies start to differentiate their activities and which factors were crucial for such transformation processes? As shown in the Uppsala model (see 2.1.1.) international activity generally starts with generic imports followed by the establishment of a sales representation, a sales subsidiary and eventually the creation of production facilities. At which level along this standardized model for global expansion do companies begin to localize business functions? Also, the dynamics along the process of localization seem highly interesting. Can it be assumed that a company increasingly localizes its functions with its presence in a certain market? Or is it possible that mentality or cultural changes induce MNCs to standardize its product solutions over time and thus "delocalize"?

Apart from that, a more holistic view on localization could be reached through connecting the various corporate activities along the whole supply chain. Which parts of other functions such as sourcing, R&D, production, sales and marketing are being localized by MNCs in a market like Brazil? Investigating the depth of localization along the elementary business activities would give further insights into the country composition of Brazil and the respective adjustment techniques.

In addition to this, localization patterns of MNCs in other emerging markets may reveal further interesting business strategies. Do companies such as Nestlé or VW understand the characteristics and trends of other complex markets such as China or India and are they able to adjust the relevant activities? Another important question in this context would be, if different markets require companies to transform different parts of the respective functions and processes.

Appendix

Appendix 1: Interview Guide Line

Questionnaire

Professor Ligia Maura Costa

Fundação Getulio Vargas 2012/13

Master Thesis Dominic Regehr

Subject: Localization in Brazil

Introduction

This questionnaire is designed to analyze the localization structures of *Nestlé do Brasil*. Nestlé has been present in Brazil for a long period of time and many of its business functions have been adapted to the Brazilian market environment. In the following several questions will be posed in order to assess the Nestlé's current "degree of localization".

Part 1

1. Do you believe Nestlé deliberately adjusts its product function in Brazil? Which products are similar to the home country and which ones differ? Which are the trends that induce Nestlé to offer different products in Brazil?

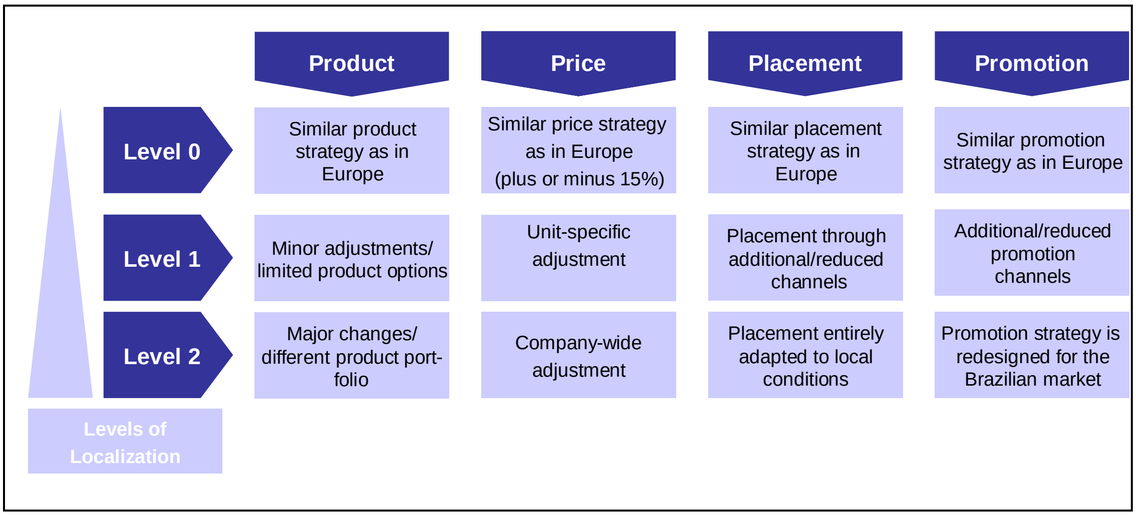
2. Is the pricing strategy in Brazil considerably different in comparison to Switzerland? Which role do import taxes and tariffs play in this context? How do Brazilians pay for Nestlé products given their per capita income is much smaller than the Swiss one?

3. Do you use different distribution strategies in order to operate successfully in the Brazilian market? Which are the main differentiation drivers for Nestlé?

4. Are promotion activities in Brazil different from those in Nestlé's home country? What about advertisement spending, the channels used and the actual advertisement contexts?

Part 2

Looking at the localization framework below, where would you evaluate Nestlé's marketing mix? How would you describe Nestlé's localization approach in Brazil?



Thank you very much for your time and help. The results of this scientific paper will be sent to you once the paper is completed.

Questionnaire

Professor Ligia Maura Costa

Fundação Getulio Vargas 2012/13

Master Thesis Dominic Regehr

Subject: Localization in Brazil

Introduction

This questionnaire is designed to analyze the localization structures of *Volkswagen do Brasil*. Volkswagen has been present in Brazil for a long period of time and many of its business functions have been adapted to the Brazilian market environment. In the following several questions will be posed in order to assess the Volkswagen's current "degree of localization".

Part 1

1. Do you believe Volkswagen deliberately adjusts its product function in Brazil? Are there any entirely new models especially designed for the Brazilian market? Is the quality of the products offered in Brazil comparable to Germany?

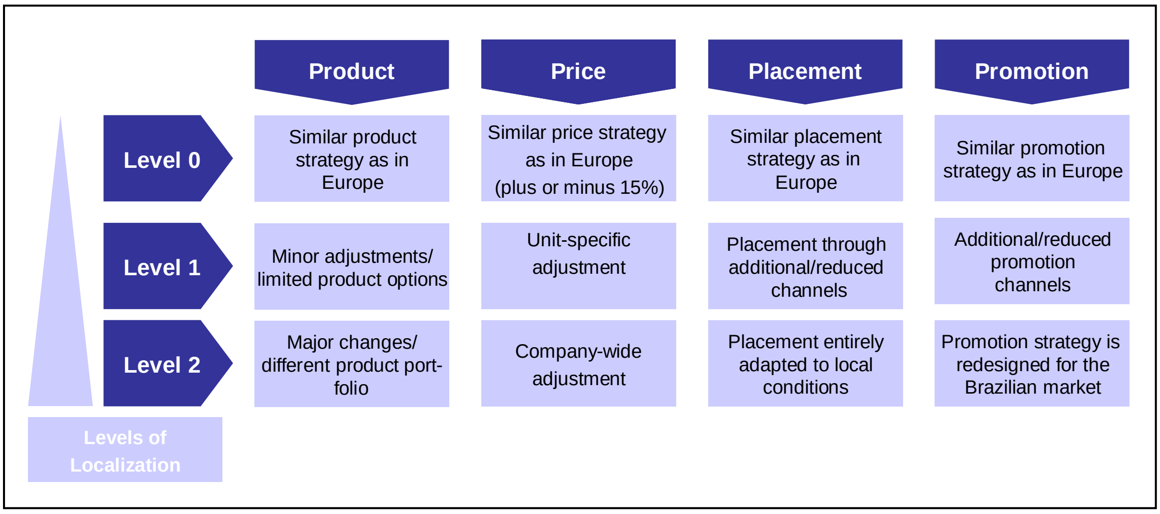
2. Is the pricing strategy in Brazil considerably different in comparison to Germany? Which role do import taxes and tariffs play? Do high production costs boost the significantly higher price level in Brazil? How do Brazilian finance their car purchases given their lower average income as compared to Germany?

3. Do you use different distribution strategies in order to operate successfully in the Brazilian market? How do you cope with the enormous size and the poor infrastructure in the country?

4. Are promotion activities in Brazil different from those in Volkswagen's home country? What about advertisement spending, the channels used and the actual advertisement contexts?

Part 2

Looking at the localization framework below, where would you evaluate Volkswagen's marketing mix? How would you describe Volkswagen's localization approach in Brazil?



Thank you very much for your time and help. The results of this scientific paper will be sent to you once the paper is completed.

Appendix 2: Interview Partners Nestlé

Nestlé

Number	Initial	Title	Country	Company	Interview
1	DH	Head of Health Care Unit Brazil	Brazil	Nestlé	08.05.2012
2	HM	Head of Product Development	Switzerland	Nestlé	12.05.2012
3	JP	Head of Strategic Planning	Brazil	Nestlé	15.05.2012
4	HP	Vice President Marketing	Switzerland	Nestlé	20.05.2012
5	MT	Principal	Switzerland	The Boston Consulting Group	09.05.2012
6	UW	Partner	Switzerland	The Boston Consulting Group	18.05.2012

Appendix 3: Interview Partners Volkswagen

Volkswagen

Number	Initial	Title	Country	Company	Interview
1	JC	Head of Product Planning	Brazil	Volkswagen	20.08.2012
2	PI	Head of Strategy Brazil	Brazil	Volkswagen	01.09.2012
3	CN	Director of Marketing (Golf)	Germany	Volkswagen	14.08.2012
4	DR	Director of the Finance Department	Germany	Volkswagen	24.08.2012
5	BU	Principal Automotive Group	Germany	The Boston Consulting Group	30.08.2012

Appendix 4: Country Presence Nestlé

A) Global

Nestlé Good Food, Good Life

Global Presence

Nestlé's unmatched geographic presence is one of its competitive advantages. From Swiss beginnings, the company grew to establish a presence in almost every country in the world. Today, Nestlé's presence in most markets, including emerging markets, dates back many generations, and some cases more than a century.

This has created very close relationships between our brands and consumers, as well as a deep understanding of local needs and trends wherever Nestlé operates. Local management teams, manufacturing, R&D have all been developed, as well as long-term relationships with farmers and other suppliers.

Source: http://www.nestle.com/AboutUs/GlobalPresence/Pages/Global_Presence.aspx

B) Europe

Source: http://www.nestle.com/AboutUs/GlobalPresence/Pages/Global_Presence.aspx

C) Brazil

Source: http://www.nestle.com/AboutUs/GlobalPresence/Pages/Global_Presence.aspx

Appendix 5: Country Presence Volkswagen

A) Global

Production Plants

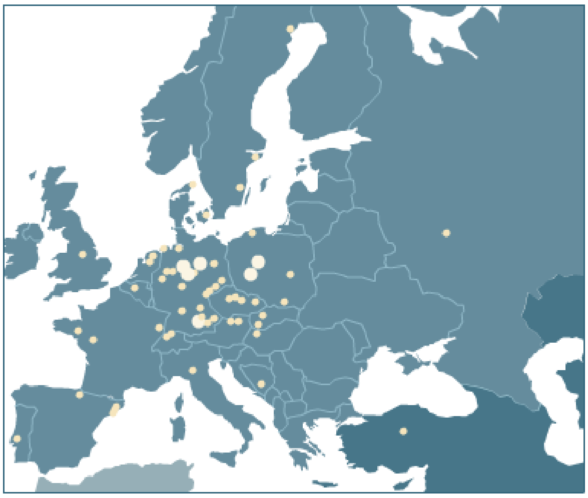
The Group operates 94 production plants in 18 European countries and a further eight countries in the Americas, Asia and Africa. Each working day, 501,956 employees worldwide produce some 34,500 vehicles, are involved in vehicle-related services or work in the other fields of business. The Volkswagen Group sells its vehicles in 153 countries.

December 31, 2011

Source: www.volkswagenag.com/content/vwcorp/content/de/the_group/production_plants.html

B) Europe

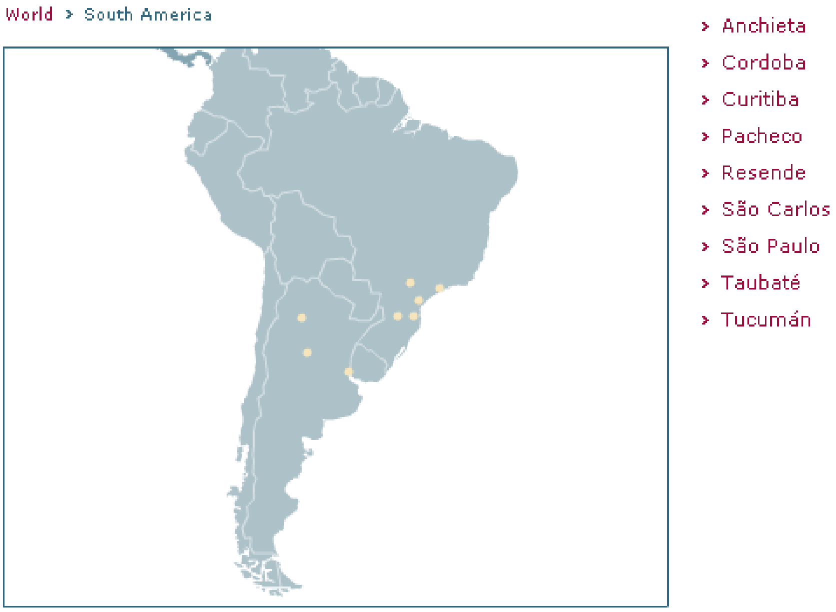
World > Europe



- Angers
- Ankara
- Augsburg
- Berlin
- Barcelona
- Bratislava
- Brunswick
- Brussels
- Chemnitz
- Copenhagen
- Cracow
- Crewe
- Deggendorf
- Dresden
- Emden
- Frederikshav
- Györ
- Hamburg
- Hanover
- Ingolstadt
- Kaluga
- Kassel
- Kvasiny
- Luleå
- Martin
- Martorell
- Meppel
- Mladá Boles
- Molsheim
- Munich
- Neckarsulm
- Nuremberg
- Oberhausen
- Oskarshamr
- Osnabrück
- Palmela
- Pamplona
- Plauen
- Polkowice
- Poznan
- Prat
- Rheine
- Saint-Nazaire
- Salzgitter
- Sant´Agata Bolognese
- Sarajevo
- Slupsk
- Södertälje
- Starachowice
- Steyr
- Velká Biteš
- Vienna
- Vrchlabí
- Wintherthur
- Wolfsburg
- Zurich
- Zwickau

Source: www.volkswagenag.com/content/vwcorp/content/de/the_group/production_plants.html

C) Brazil



Source: www.volkswagenag.com/content/vwcorp/content/de/the_group/production_plants.html

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Declaration of Authorship

I hereby declare that I have written this paper without help from other persons and without using sources other than those stated in the literature review.

Moreover, I declare that I have cited all used sources according to established academic standards.

Paris, Date

Dominic Regehr