

MARKET ENTRY BRAZIL SUCCESSFUL PLANNING AND IMPLEMENTATION



IN AN INCREASINGLY CONNECTED WORLD,
BEING IN THE RIGHT PLACE,
AT THE RIGHT TIME,
WITH THE RIGHT PARTNERS,
CAN MAKE ALL THE DIFFERENCE.

In an increasingly globalized and connected world, companies that pursue business beyond their local borders significantly increase their value. With new markets come new opportunities for growth, diversification, and innovation, gaining local insights and knowledge. Such opportunities lead to increased shareholder value.

However, many companies fail in their attempts to enter foreign markets or, once there, struggle to become profitable.

A common mistake is not doing the necessary business due diligence. Lack of market understanding or insufficient planning can impair an international venture. For instance, companies that fail on entering Brazil often assume that the Brazilian market is similar to their own.

Entry barriers to the Brazilian market can be high; those companies who do not correctly assess the opportunities and risks are likely to lose money. However, these entry barriers can also benefit companies that properly plan their market entry strategy.

In addition, cultural differences are, in many cases, greatly underestimated. Companies may not understand the “local way” of doing business and can lose opportunities for building relationships with potential partners, local suppliers, and customers. Many companies struggle during M&A negotiations, as well.

Berners Consulting is an international management consultancy with a focus on “international bridging”, helping clients to successfully enter new markets. With roots in Germany we have clients across the globe.



BERNERS CONSULTING IN BRIEF



We are a boutique management consulting firm with offices in Germany, Brazil, and China. Our fourth office, currently in development, will be in the United States.

Depending on where our clients are based and their business objectives, we offer services including management consulting, intercultural coaching, and project management to assist in market entry, operations optimization, M&A, or building strategic partnerships with foreign partners working in the local context.

With a mission of adding value to clients, our international consultants act as project managers, supporting our clients from initial planning to implementation and beyond.

With our proven methodologies, international network, and broad management experience, we help our clients succeed internationally.

WE CONSULT AND
SUPPORT COMPANIES
TO SELL, PRODUCE
OR PURCHASE
IN BRAZIL

Brazil - the country of the present

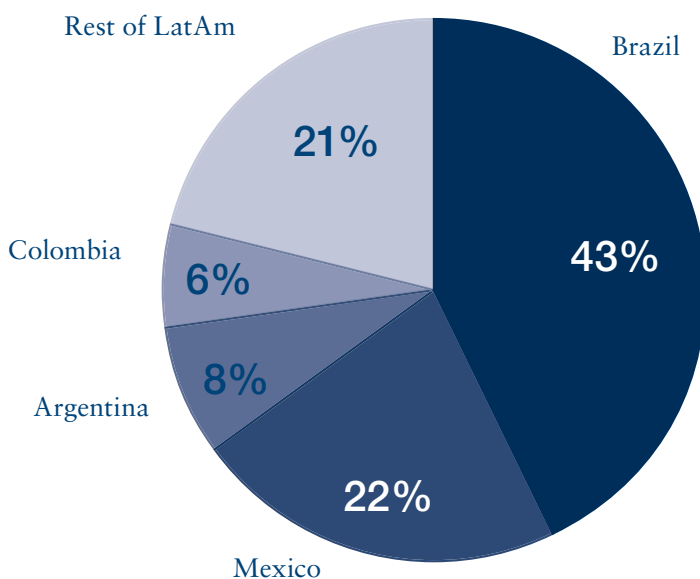
For decades there was a saying that Brazil was “the country of the future – and it always will be”.

In the past, despite being extremely rich in natural resources and having a large population of risk takers and entrepreneurs, the country could not sustain long-term growth. Failed government policies combined with economic crises in Latin America and around the world, made Brazil's bright future seem a long way off. However, starting in the 1990s, the country went through a process of reforms and market liberalization that brought hyperinflation under control and privatized a number of key industries.

Privatizations, coupled with foreign direct investment and capital market liberalization, have helped foster economic development over the better part of two decades. Though there still remains much to do in terms of lowering trade barriers, improving infrastructure, and simplifying taxation, the country is now, more than ever, open for business. The future has finally arrived.



Distribution of GDP in Latin America



Source: IMF, 2012 Nominal GDP in US Dollars

KEY FACTS & HIGHLIGHTS

- Brazil is quickly becoming one of the largest economies in the world with approximately 43% of Latin America's total GDP alone.
- With a large geographical territory and a population of almost 200 million, the opportunities in Brazil are many.
- Government investments in infrastructure, oil & gas exploration, mining, and defense are creating new opportunities for well-positioned companies.
- Social and economic assistance for the lower classes is boosting consumer spending levels, benefiting numerous industries



DOING BUSINESS IN BRAZIL

Although many multinational companies have some of their most profitable branches in Brazil, the “risco Brasil” must be assessed before making significant investments in the country. Complex regulations, extensive bureaucracy, and increasing competition are some of the obstacles companies face.

Brazil - SWOT	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Market size • Politically and economically stable • Investment-grade debt • Optimistic growth projections in numerous industries • Increasing global influence 	<ul style="list-style-type: none"> • Large bureaucracy • Complex regulations and tax code • Restrictive labor laws • Import taxes and protectionism • Shortage of qualified personnel for some industries
Opportunities	Threats
<ul style="list-style-type: none"> • Growing economic ties to China, the US, Europe, and the rest of Latin America • Large investments being made in infrastructure • Major oil discoveries • Growing middle class with increasing purchasing power 	<ul style="list-style-type: none"> • Prolonged downturn in the global economy • Fall in commodity prices • Weakening of the currency affecting corporate profits • Government inaction in tackling national economic imbalances

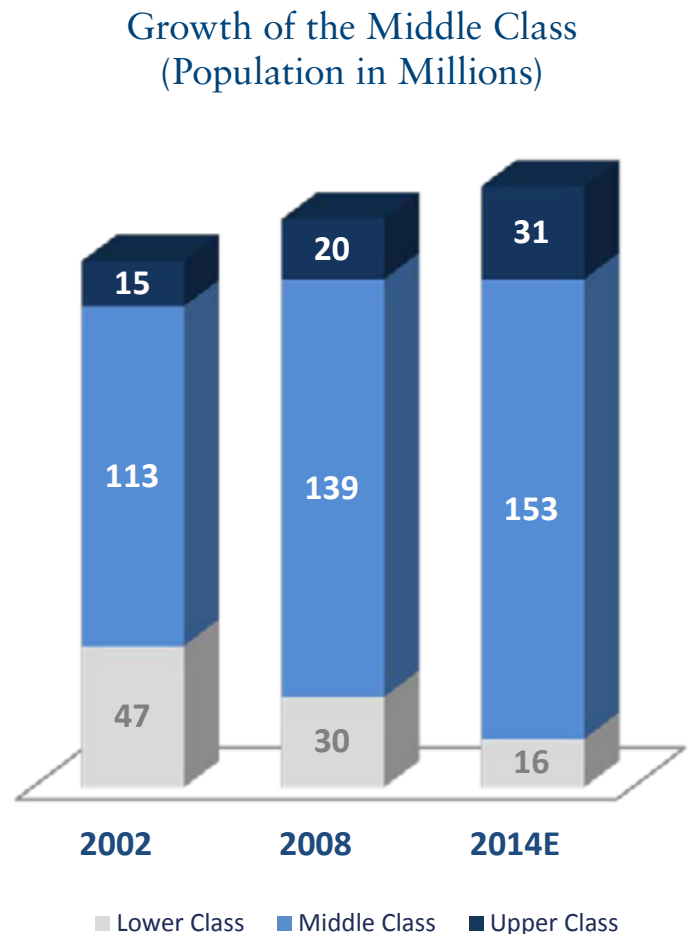
Consumer Goods

- > Brazil accounts for almost 60% of the US\$1.6 trillion Latin American retail market
- > Retail sales are expected to grow by over 40% to more than US\$1.2 trillion by 2016
- > Food and beverage sales are expected to grow by over 60% to more than US\$350 billion by 2016
- > Brazil is the second largest franchising market worldwide in total number of brands

Economic reforms over the last couple of decades have brought major increases to the spending power of millions across Brazil. The resulting boom of the middle class is rapidly changing consumer spending habits, resulting in new opportunities for companies looking to sell their products in Brazil.

Almost all segments within the consumer goods industry are expected to benefit from massive growth in consumer spending power over the next decade. Depending on the region, consumer spending is expected to double or even triple.

With the ever increasing number of goods available to the average Brazilian consumer, having the right strategy in place can determine whether or not a company is able to capture a profitable share of the market.



Source: Brazilian Institute of Geography and Statistics

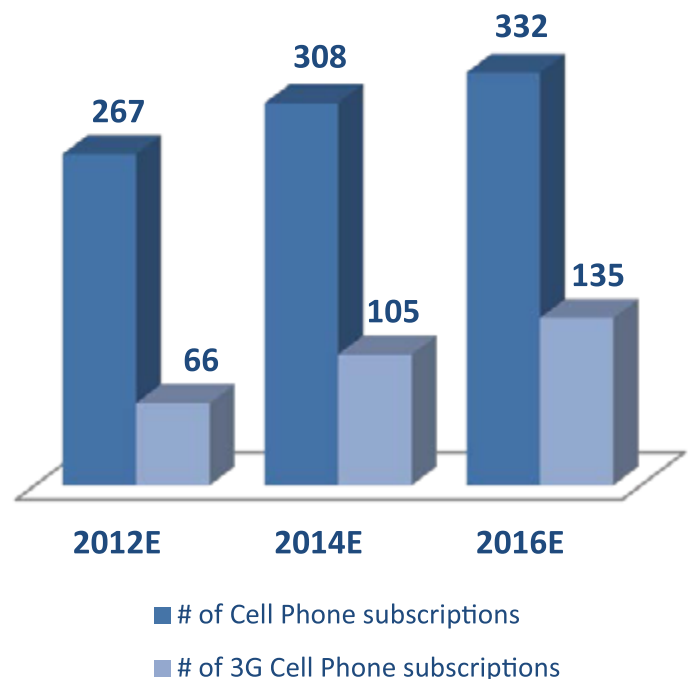
Consumer Electronics

- > The Brazilian consumer electronics market is by far the largest in Latin America
- > By 2016, the number of cell phone subscriptions is expected to **exceed 300 million**, and the number of 3G mobile subscriptions will **double to over 130 million**
- > By 2016, annual LCD television sales are expected nearly to **double to over 12 million** units, and annual digital camera sales will **double to over 10 million** units

Falling prices combined with higher incomes and greater access to credit make the consumer electronics market particularly attractive in Brazil. The population's love for technology continues to expand. Wireless market penetration, for example, is expected to reach over 130% in 2012 while in the US it is around 100%.

Sales of mobile devices, computer hardware, televisions, and digital cameras are all expected to rise considerably in the coming years as the country becomes more wired. Companies that want to take advantage of the market need to understand how Brazilians use technology in their lives.

**Cell Phone Subscription Projections
(in Millions)**



Source: Business Monitor International

Oil & Gas

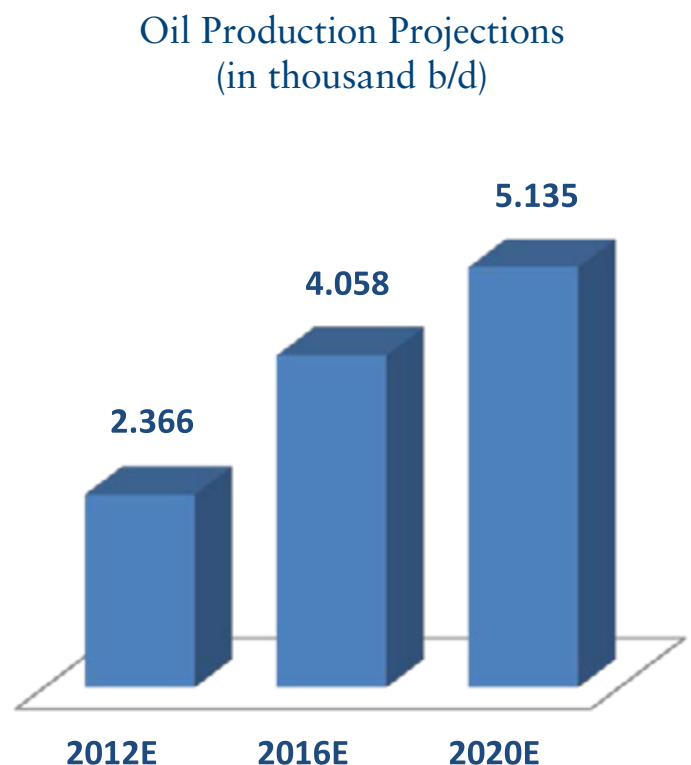
- > Brazil is the **largest energy consumer** in Latin America, and the third largest in the western hemisphere
- > The discovery of **billions of barrels of oil** off the coast of Rio de Janeiro is one of the most significant developments in the global oil industry in decades
- > Brazil is the **largest exporter of ethanol** and the second largest producer worldwide
- > More than half of all cars in Brazil are **flex-fuel enabled** with the majority of new cars containing the technology

As the Brazilian economy continues to expand, so too will its appetite for energy. Soaring demand will be met, in part, by major oil discoveries off the country's central coast.

Brazilian companies, such as Petrobrás, are investing billions and working to bring reserves online, and foreign companies will play an important role in bringing much needed technical know-how both upstream and downstream.

Billions of dollars in investment are also bringing opportunities to related sectors including ship building, special consumer goods, security-related products and equipment, and infrastructure, among others.

Understanding the market and building strong relationships will determine the success a foreign company enjoys in this industry.



Source: Energy Information Administration

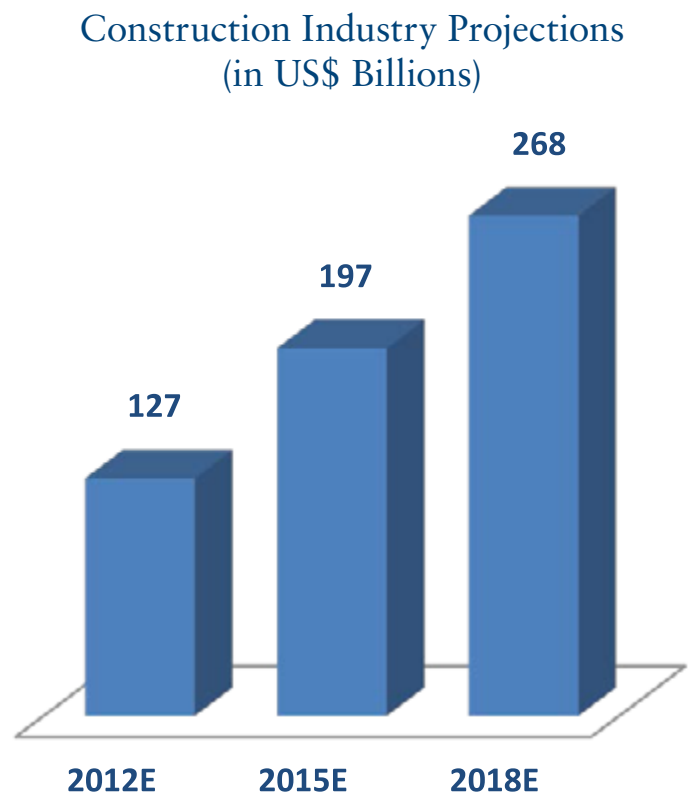
Infrastructure

- > Federal, state, and municipal governments are investing **billions** to prepare the country for both the 2014 FIFA World Cup and 2016 Summer Olympic Games
- > Brazil is pushing through **major projects** in hydroelectric, gas-powered, nuclear, and alternative energy plants to keep up with the country's **increasing hunger for energy**
- > The government has opened Brazil's public ports and airport to private investment
- > By 2016, Brazil will account for almost 45% of Latin America's cement consumption

Billions are being invested in energy and infrastructure not only in anticipation of the FIFA World Cup and Olympic Games, but also to meet the demands of a wealthier population.

Across the various sub-sectors and supply chains of the broader infrastructure sector Brazil has a number of well-established and highly-skilled companies creating a comprehensive competitive landscape. To accomplish what it hopes to over the next decade, Brazil will also need the support and expertise of international companies.

In order to be successful, foreign companies must establish and implement strategies that leverage a competitive advantage. They will also need to establish strong relationships with both potential partners and clients.



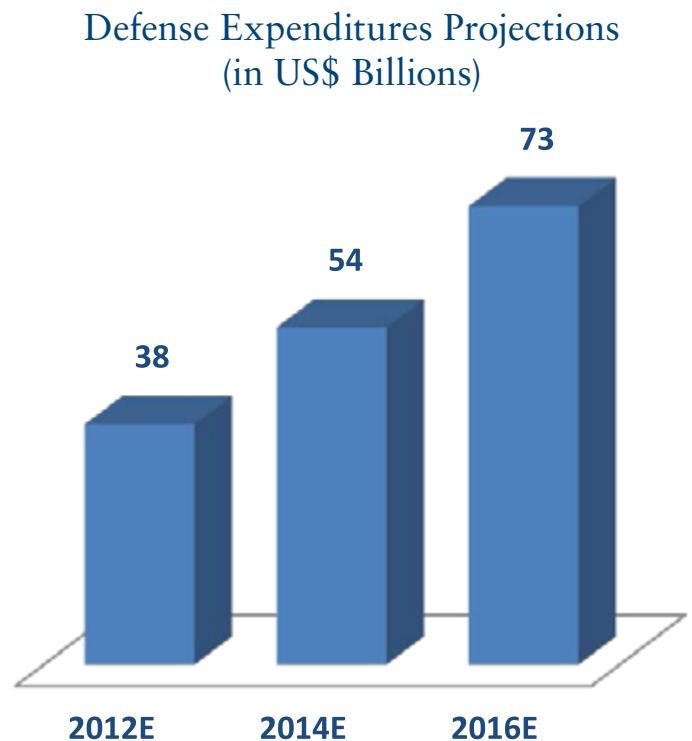
Source: Brazilian Institute of Geography and Statistics

Defense

- > Brazil will spend billions over the next two decades modernizing all three branches of its military
- > By 2016 defense spending is projected to nearly double to over US\$70 billion
- > Brazil has the largest military in Latin America with over 300,000 troops
- > Over the coming years, Brazil will invest billions in new fighter jets and submarines

As a result of its recent economic success Brazil is looking to play a greater role on the world stage. As such, it is spending billions to modernize all three branches of its military. Internally, the country faces a number of security-related issues. Brazil will need to invest heavily in its police forces as it fights to take control of the country's large shanty towns before the FIFA World Cup and the Olympics. To protect the country's vast natural resources in the Amazon and off its coast, the country will need a well-funded and trained military.

The defense industry offers great opportunities for foreign companies willing to partner with Brazilian companies and invest within the country. However, navigating the market and finding the right partners requires an effective network and market knowledge.



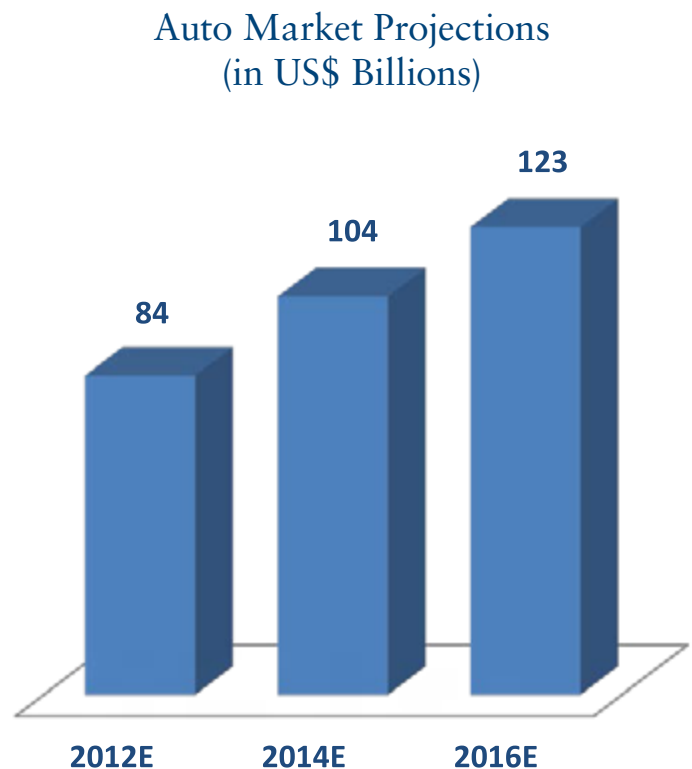
Source: Stockholm International Peace Research Institute

Automotive Industry

- > By 2016 the Brazilian market is expected to grow 50% to over 4 million units per year, reaching US\$120 billion
- > The market entry of Chinese and Korean manufacturers has made the competitive landscape increasingly dynamic
- > The vast majority of leading manufacturers already have local production operations
- > Companies are investing billions to keep up with demand

The auto industry in Brazil is extremely competitive. Brazilians, from the lower middle class to the wealthiest elite, love their cars. As millions move out of poverty and into the middle class, they are seeking alternatives to motorcycles and public transportation. And companies are racing in to meet the demand. Most American, European, Japanese, and Korean car companies already sell and manufacture in Brazil, and new companies from China are entering the market.

Though plenty of opportunities exist for suppliers, finding and working with the right local partners is key to success. A company looking to enter the market needs to understand both the culture and the way business is done in Brazil.



Source: National Association of Motor Vehicle Manufacturers



THE BERNERS CONSULTING ADVANTAGE

Entering a new market requires determination, planning, and follow-through as well as the right partners. We at Berners Consulting develop lasting relationships, to better understand our clients' specific needs and to offer long-term support. We serve as a resource that can be activated to meet the changing needs of our clients' business development.

Based on solid experience as consultants and operations managers, we can support the most diverse client demands. For specific topics which we do not cover with our own expertise – such as specialized legal and tax advice – we can recommend experienced professionals and companies from our extensive network.

Our truly international team is located in our clients' target markets and can help to facilitate all the things that could become a headache if not treated in the right way. We also serve as a catalyst for building effective cross-cultural relationships for our clients.

- > Market Assessments
- > Market Entry Strategies
- > Partner Search & Management
- > Operations Installations
- > M&A Support

VALUE CHAIN

ADRESSABLE MARKET

CUSTOMER PREFERENCES

COMPETITIVE ENVIRONMENT

REGULATORY FRAME

KEY SUCCESS FACTORS

BUSINESS SCENARIOS

BUSINESS CASES

WINNING STRATEGY

EFFECTIVE IMPLEMENTATION

> Market Assessments

Market assessments help our clients discover opportunities, map risks, and determine overall business attractiveness in order to make the right investment decisions when entering Brazil. Our methodology for market assessment gives our clients a complete overview of industry dynamics.



Berners Consulting can access the most up-to-date data from the most relevant sources in order to provide our clients with a complete understanding of the Brazilian market. Utilizing a diverse range of sources, we help our clients comprehend key factors that will drive their success.

> Market Entry Strategies

A good market entry strategy determines the most effective route for companies to enter the Brazilian market.



Which strategy fits best depends on many factors, such as the company's vision, global strategy, internal resources and capabilities, flexibility, intercultural maturity, attitude toward risk, need for control, and time commitment.

Understanding how to do business in the local market and the cultural differences are also key to developing winning entry strategies.

At Berners Consulting we take a holistic approach to strategy by understanding the overall company strategy and defining the best path to achieve the company's international expansion objectives.

Once a strategy has been determined, Berners Consulting helps clients move forward with confidence regardless of the determined strategy.

A HOLISTIC APPROACH TO PUTTING PLANS INTO PRACTICE

The paths to successfully enter a foreign market are diverse – pure import business, proprietary local production, strategic alliance, licensing agreement, franchising agreement, joint production, or acquisition of a minority, majority, or 100% stake of existing operations. Often, a series of viable strategies may be employed.

Whatever our clients' strategy may be, we are well positioned to effectively support them in overcoming challenges, in both organizational setup and daily management. In our experience, it often comes down to one of three major topics:

- Finding a partner that best fits the chosen strategy's goals and structure – be it a distribution representative, or a production joint-venture partner
- Setting up operations in the target country – be it for a wholly proprietary production facility, within a joint-venture setup, or in conjunction with a successful acquisition effort
- Executing M&A plans – be it a minority stake or a controlling interest.

> Partner Search & Management

Our comprehensive Partner Search and Management program covers the entire process of establishing successful operations in the Brazilian market with a local partner.



The program begins in a workshop setting in which, together with our clients develop a potential partner profile. Next, we screen potential partners to establish a short list of solid candidates. Following partner selection, negotiations, and contracting, we assist in integrating our client with the new partner in Brazil. This includes creating processes and systems, training personnel, beginning production, and passing responsibilities on to the partner.

> Operations Installations

From defining a plan of attack, to project execution, we help our clients establish operations in Brazil in a timely and cost-effective manner from beginning to end.



Working together with clients to determine their specific needs, Berners Consulting is able to create and implement a road map involving multiple location scenarios. Our knowledge and experience helps in understanding the implications of logistics, taxation, regulations, and other issues that arise when looking to operate in Brazil. Once a location has been definitively chosen, Berners Consulting helps form a structure for implementing our client's plans along all the initial phases including: business plan production, installation and project planning, project implementation, and operations planning.

> M&A Support

From prospecting targets and conducting strategic due diligence, to preparing letters of intent and structuring transactions, we support our clients through all M&A related activities. Our network includes firms specialized in law, accounting and audit, as well as M&A banks that can structure successful deals throughout Brazil. At Berners Consulting we seek to remove all the guess work associated with entering an unfamiliar market for our clients.

BERNERSCONSULTING

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