Evaluating Entry mode Models and Strategy for the Brazilian market
A Case Study of Bestseller

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EXECUTIVE SUMMARY

This thesis is based upon an interest in the field of internationalization and a desire to understand how entry models can provide different views upon the subject. Therefore, the main focus of the thesis is to review, explore and compare four entry mode theories in order to explore how these models react on different internal and external factors. The objective of this thesis is to create a theoretical as well as practical research, which can provide a qualified assessment of how Bestseller should enter the Brazilian market.

The subject of this thesis is inspired by two courses that the author has followed on his masters program, Master of Business Administration in International Business at CBS. The two courses, International Business in Emerging Markets and The International Business Environment: Strategy, Policy & Organisation, have helped to create the fundamental knowledge that is needed in order to conduct such research study.

Existing academic literature on entry mode models and internationalization of the firm is reviewed in order to develop a theoretical framework utilized for the investigation of the objectives of the thesis.

The chapter reviewing entry mode literature consists of defining the concept and opportunities of entry modes and reviewing the utilization of the chosen entry mode theories as a unit of analysis. The following chapter performs an in-depth analysis of the internal and external factors, which is utilized to create a foundation of the analysis.

The empirical data is based upon evaluation of internal and external factors that in the thesis are analysed individually and then interconnected in a comparative analysis, where the factors are analysed from the different theoretical viewpoints and used to create entry mode recommendations based upon how the different entry mode models perceives the factors and how the recommend expanding into the Brazilian market should be conducted based upon the collected information.

A single-case study design has been chosen to answer the research questions, where the Danish multinational fashion company has been chosen as subject of research. Interviews with the Danish consul in Brazil and Bestsellers Managing Director have been conducted, in order to include their reflections and perceptions upon how Bestseller should enter the Brazilian market.

The findings suggest that Bestseller should enter the market through a collaborative manner, where the firm should engage in a multiple-unit franchisee agreement with a local Brazilian partner.
ACKNOWLEDGEMENTS

First of all, I would like to thank my friends and family, who have all been very supportive during the whole process. I’m very grateful for your guidance and support, which has kept my motivation high when times have been rough. A special thanks to my parents, who because of their sincere interest in the project, have been supportive and motivated me throughout the entire process.

I would like to give a special thanks to my colleagues at work. Despite busy and hectic workdays, you have given me freedom and flexibility in my work schedule, which has helped me find time to focus on my masters thesis while working. This has been a great help, and I am incredibly thankful. In particular, I would like to thank my supervisor Aradhna Aggarwal. I deeply appreciate your support and constructive feedback, as well as the effort you make to reply promptly to my emails. I would also like to thank Monica Balanda from my old university in Rio de Janeiro, Fundação Getulio Vargas. She has been helpful throughout the entire thesis by answering any questions that I had about Brazil and has put me in contact with professors from the university who were able to answer specific questions.

Finally, I would like to thank the people who have added value to the thesis through interviews. Mr Contreras from Bestseller, who has helped explain Bestseller’s activities in South America and has offered his interpretation of their strategy in that region. The Danish Consul, Mrs Bisgaard Pedersen, has been very supportive and helpful and has shared her extensive knowledge about Brazil and market entry ideas. Her willingness to share her knowledge has been an asset to this thesis.
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1. INTRODUCTION

For some companies, internationalization is an important part of their development. The reasons that certain companies choose to expand into foreign markets can be numerous. Some will seek to obtain economy of scale, while others due to a small domestic market are forced to internationalize as part of their growth strategy.

The internationalization of businesses has drawn broad attention from scholars for decades. There exist a broad range of theories that businesses can apply when seeking guidance about which strategy to choose in a new market. Both internal and external factors can influence the business when choosing its strategy. As differing theories point in different directions regarding the best mode of entry, this can result in several proposals being put forward. With this in mind it is important to conduct a broad analysis from several differing viewpoints to determine how these varying factors can influence the business. The correct business model is the foundation of a company’s creation value, which can create a competitive advantage for the company in the new market if executed properly. Hence, the right entry mode strategy is essential for a company to succeed. (Lu, Karpova, & Fiore, 2011).

This thesis will examine a scenario in which Bestseller, enters the Brazilian market. When expanding into a new market, the firm may face several differences compared to their usual framework of business in their domestic market. As an example, such differences could be institutional, cultural or economic, which may all impact on the entry mode that the business chooses. (Ibid)

A company's objective is to create a balance between commitment and risk, therefore creating the highest possible return on investment. (Anderson & Gatignon, 1986)

In general entry mode theories have the same objective, which is to solve “how” to enter a new market in a way that increases the return of the investment in the best possible manner. The problem can be that even though the theories aim to solve the same problem, they are founded upon different perspectives which may create contradicting recommendations. (Sharma & Erramilli, 2004).

This thesis studies four well-known entry mode theories, and will analyse the same internal and external factors. The goal is to discover if there are any differences in the theories recommendations, or whether they agree upon how Bestseller should enter the market. The
theories used in this thesis are, the transaction cost theory, the resource-based view, the Institutional Theory and the real option theory. The objective is to apply them to the internal and external factors that may affect Bestseller in Brazil and thus determine an appropriate entry mode. The objective is to provide Bestseller with an in-depth theoretical analysis in which the different entry mode perspectives are taken into account seen from several relevant theories. To get a better understanding of Brazil as a market, a brief overview of Brazil follows in the next section.

1.1 Background

The Brazilians have never before spent so much money on shoes, clothing, and other products that are part of the fashion market, as they do today. The Brazilians have never previously spent so much money on shoes, clothing, and other products that are part of the fashion market, as they do today. The retail clothing industry in Brazil has grown by 45% in real value over the last 5 years. The total sales of clothing in Brazil in 2013 amounted to R$ 82.5 billion and is expected to grow steadily over the coming years. (The Danish Trade Consul)

According to London-based consultant Euromonitor, during the period of 2013-2018, an increase of 20% is predicted. "Even though the economy is stagnant, Brazil has a growth in the fashion market that is very favorable," says Luciane Robic, professor at the Brazilian Institute of Fashion.

1.2 International fashion retailers in Brazil

Brazilian firms are gearing up for an inevitable increase in competition by foreign brands, which for decades have been incredibly reluctant to open stores in Brazil. Steady growth in the market has increased the appetite of a growing number of multinationals. “Today, because of the consistent growth of the market, it has increased the ambition of a growing number of multinationals.” (Ana Luiza Leal, EXAME, 2014) In August 2013, American giant, Gap, entered the Brazilian market via a franchise system operated through the Blue Bird Group, which is the exclusive franchisee of the American brand in the Brazilian market.

"Brazil is an important step in our expansion strategy and we are excited to introduce our store experience to Brazilian consumers," said Stefan Laban, Director of Strategic Alliances at Gap Inc, in a statement. "Seeing that Brazil is the fifth largest country in the world and the
first economy in Latin America, we feel that this market gives us an incredible opportunity for growth.” (FFW, 2013)

In general, Latin America takes a strong position in the Apparel Index, led by Chile (#3), Brazil (#5), and Mexico (#9). This is evidence that the region holds an interesting prospect for a firm like Bestseller.

The 2013 Retail Apparel Index

<table>
<thead>
<tr>
<th>2013 rank</th>
<th>Country</th>
<th>Market Attractiveness</th>
<th>Retail Development</th>
<th>Country Risk</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>40.2</td>
<td>10.8</td>
<td>11.8</td>
<td>62.8</td>
</tr>
<tr>
<td>2</td>
<td>United Arab Emirates</td>
<td>39.1</td>
<td>7.2</td>
<td>16.0</td>
<td>62.4</td>
</tr>
<tr>
<td>3</td>
<td>Chile</td>
<td>32.8</td>
<td>7.8</td>
<td>17.4</td>
<td>57.9</td>
</tr>
<tr>
<td>4</td>
<td>Kuwait</td>
<td>38.8</td>
<td>5.5</td>
<td>12.8</td>
<td>57.2</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>33.5</td>
<td>9.9</td>
<td>12.1</td>
<td>55.5</td>
</tr>
<tr>
<td>6</td>
<td>Saudi Arabia</td>
<td>36.2</td>
<td>5.6</td>
<td>13.2</td>
<td>55.0</td>
</tr>
<tr>
<td>7</td>
<td>Russia</td>
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<td>8.6</td>
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</tr>
<tr>
<td>8</td>
<td>Malaysia</td>
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<td>Mexico</td>
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</tr>
<tr>
<td>10</td>
<td>Turkey</td>
<td>28.4</td>
<td>9.3</td>
<td>12.6</td>
<td>50.3</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

1.3 A complicated market

Another more established player in the Brazilian market is one of the world’s largest retail fashion firms, Inditex, who are known universally for their Zara brand. “Despite the optimism for the future, the Brazilian market has not been an easy market to enter,” Mauro Friedrich, director of logistics at Zara’s Brazil confirmed.

The Brazilian newspaper Folha de São Paulo quoted Mauro Friedrich in 2013 as saying that, “Brazil was by far the most challenging market of all the 86 countries in which Zara operates.”

Friedrich mentioned the “Brazil Cost” as one of the main reasons for the existing challenges in the Brazilian market. The “Brazil Cost” refers to the high volume bureaucracy, logistics, taxation and the limited access to skilled labour. The “Brazil Cost” will be further examined later in the thesis. Zara currently operates 41 stores in Brazil, after having a presence in the
market for 14 years. This number is nowhere near their original objective, which was to open 50 stores within the first three years. (Businessoffashion.com, 2014)

It is clear from this introduction that Brazil is a large market with a high potential, but at the same time it is also a country with difficult entry barriers and challenges.

The following illustration demonstrates how some of Bestsellers competitors are expanding their businesses around the world. It is clear that the trend is that nine of the brands keeps to one certain strategy, but uses different entry modes depending on where in the world they enter. In some areas they also mix different entry modes. In Americas, which includes both North America and Latin America, the illustration shows that the brands use various entry modes. As an example Zara uses a mixed method of WOS and Franchise.

![Figure 4. Method of entry by retailer](source)

Source: Deloitte.com

### 1.4 Research Gap

As earlier mentioned, entry mode strategies are one of the most widely researched issues within the field of international business. Most of the studies that have been conducted on the subject are rooted in the transaction theory or the resource-based view. (Meyer et al., 2009). Choosing the best possible entry mode has been proclaimed to be the single most important factor for a company when entering a new marketplace. (Werner, 2002) Many of the major theories are contradictory, offering up different views as to the decision-making process behind entry into a new market. Whereas one factor may imply a high commitment based entry mode in one theory, the same factor may imply a lower commitment entry mode in the other theory. (Canabal & White, 2008) Choosing only a single theory will provide a very
single-minded glimpse at a firm’s entry mode recommendations, compared to combining a series of entry modes. Therefore by taking more theoretical aspects into consideration than just one single theory, this thesis aims to combine the most acknowledged entry modes theories, to find the best possible entry mode for Bestseller in Brazil. The objective being to obtain a more detailed analysis, compared to what it is possible to glean by relying on a single theory alone.

There is a lot of focus on emerging markets at The Copenhagen Business School. An extensive amount of research is being carried out particularly concerning China, India, and Russia while the South American giant Brazil remains almost unnoticed in the discussion about emerging economies. Therefore, it is the author’s desire to focus on this country. A country full of complexity, Brazil brings many challenges, but at the same time it is also a market with enormous potential, making it an interesting market to investigate.

1.5 Research objective

The objective of this study is to help Bestseller reach an appropriate entry mode in Brazil. The entry mode choice will be reached by analysing different entry mode theories, interpreting their proposals, and creating an overall conclusion through an in-depth comparison of the different theories. The entry mode theories will be based on information from the external and internal environment analysis in the thesis. To add further depth to the analysis, two interviews with relevant sources will also be included. It is important to note that the findings in this thesis will only be relevant for Bestseller. They should not be applied as a common best practice for Danish firms entering Brazil, as each case will have different influencing factors, depending on the individual firm and its branch.

The research questions are as follows:

The study aims to answer the following research questions:
- How do the external and internal environmental factors affect Bestseller in Brazil?
- Which entry mode should Bestseller choose when entering Brazil, based on the chosen entry mode theories?
1.6 Thesis structure

Chapter 1
Introduction

The first chapter seeks to develop the foundation for the thesis. The introduction and background information is used to form the basis for the research objective that is outlined in chapter one.

Chapter 2
Methodology

The second chapter presents the applied methodology that will be used throughout the thesis. This chapter will specifically focus on outlining how the methodological part of the thesis is structured.

Chapter 3
Literature review

Chapter three reviews the existing literature and focuses on explaining the different entry mode possibilities and outlining the entry mode theories that have been applied to this thesis.

Chapter 4
Influential factors

Chapter four deals with the internal and external factors that have been selected for this thesis. A review of these factors aims to provide an empirical foundation that can lead to a detailed entry mode analysis.

Chapter 5
Entry mode analysis

The fifth chapter analyzes the empirical data in connection with entry mode theories. This includes an external and internal analysis of how the factors are affecting Bestseller in Brazil.

Chapter 6
Conclusion

Chapter six discusses the findings of the analysis in the light of utilized literature, combined with an evaluation of the two interviews carried out in this thesis. The chapter is finalized by providing final entry mode recommendations for Bestseller.

Chapter 7
Recommendations

Chapter seven presents the key findings of this study as well as answers the research questions that have laid the foundation of this thesis. Furthermore, the chapter discusses the limitations of this study as well as proposing ideas for future research.

Chapter 8
Reference list

Chapter eight presents a complete list of references used in this thesis.
1.7 About Bestseller

To help gain a broader understanding about Bestseller, the following section will focus on presenting relevant facts about the company, which shall help create a fundamental understanding of Bestseller. This in turn should offer an understanding as to why it is beneficial to choose Bestseller as a topic for a master’s thesis in international business.

Bestseller is fully owned by the Holch Povlsen family, with Anders Holch Povlsen operating as CEO. He is the son of Troels Holch Povlsen, who founded Bestseller in 1975. Bestseller Fashion Group China operates as an independent firm and is also owned by the Holch Povlsen family, together with two business partners, Allan Warburg and Dan Friis. (Bestseller.com) Apart from his ownership of Bestseller, Anders Holch Povlsen is also a large stockholder in some of the world’s largest online fashion stores, such as zalando.com and asos.com as well as the Swedish fashion brand J.Lindeberg.

With nearly 10,000 stores worldwide, Bestseller is the largest fashion chain in the world. With more than 3,000 stores in Europe, the Middle East, Canada and India and more than 6,000 stores in China, Bestseller has more stores than both Spanish Inditex (5,900 stores globally), US GAP (3,407 shops) and H&M Group (2,776 shops). Despite its large number of shops, Bestseller’s revenue does not yet measure up to the major competitors. (aoib.dk)

Besides their 10,000 stores, Bestseller’s products are sold in approximately. 15,000 multi-brand and department stores around the world. Bestseller distributes their products in 70 different markets across the world. The following brands are all part of their portfolio: Jack & Jones, Junarose, Jaquelinde De Young, Little Pieces, Mamalicious, Name It Ltd., Noisy May, Object Collectors Item, Only, Only Play, Only & Sons, Outfitters, Nation, Pieces Selected, Vero Moda, Via Clothers and Y.A.S. (Bestseller.com) In recent years, Bestseller has experienced a decline in sales across Europe, which has forced the firm to search for new markets that can compensate for the lack of European sales. Their venture cooperate mentality has led the firm to distant markets such as India, Uzbekistan and Lebanon. Due to Bestseller’s previous internationalisation pattern, it is clear that the firm is willing to take calculated risks on new markets in its quest for future growth.
1.7.1 Bestseller and Latin America.

Bestseller has yet to establish physical stores in Latin America while many of its competitors have already established themselves in that region.

In 2013, Head of corporate communications, Mogens Werge, said that Bestseller did not have any concrete plans for expansion in Latin America, but that Bestseller found this market very interesting and that they would keep an eye on them in the future. (business.dk)

So that it can maintain its competitiveness in the increasingly intense international fashion market, Bestseller runs an ambitious expansion program. The founder of Bestseller Troels Holch Povlsen told the Copenhagen Post: "We're crazy about projects that are a bit difficult. And our goal is to do things even better. It's exciting to compete at a global level where we are up against some highly skilled competitors." (encyclopedia.com)

This statement shows that Bestseller is unafraid of entering foreign markets, which are a considerable geographical distance from their domestic market. Brazil is, therefore, an interesting market to evaluate, as it could be a future candidate for Bestseller. In a situation where Bestseller chooses to enter the Brazilian market, it will be necessary to conduct an entry mode analysis. During the production of the thesis, it came to the author’s knowledge though the interview with Bestseller that the firm has set up a sales office in Uruguay in 2015. This is its first bold expansion into Latin America. This topic will be elaborated on further in the interview with the Latin American Bestseller- representative.

2. Methodology

2.1 Research Purpose

The chapter seeks to clarify the methodological approach that has been applied to this thesis. The methodology includes a review of the applied research approach, research design, data sources and an evaluation of the research credibility.

The objective of this section is to clarify and define the applied methods in order to give the reader a clear understanding as to how and why this chosen methodology has been applied to the research study.

The methodology section will follow the structure suggested by Foster, as illustrated below:
2.2 Research Approach:

Qualitative and Quantitative research approaches

According to Creswell (2014) there exists a variation of three different approaches when a researcher intends to perform an advanced research study. The most common methods are quantitative, qualitative and a mixed method.

Qualitative and quantitative represent two different ends on a continuum while the mixed approach can be located in the middle of the continuum, as it combines the two methods. (ibid)

A quantitative research approach is mainly based on numerical measurements, evaluation of the connection between variables, which often will include statistic observations and draw a conclusion of mathematical measurements. (Bryman & Bell 2011).

According to Bryman and Bell (2007), a qualitative research strategy should focus on words to draw its conclusions rather than quantification in the collection and analysis of data.

In this research study a **qualitative research approach** has been chosen, as according to Flick (2006), a qualitative research seek to answer questions beyond what can be answered from the measurement of observable behavior, which will typically be “what” questions.

Creswell defines qualitative research as:

“A qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences, meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative
or change-oriented) or both. It also uses strategies of inquiry such as narratives, phenomenologies, ethnographies, grounded theory studies, or case studies. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data” (Creswell, 2013).

According to Welch (2004), when investigating topics within international business, a qualitative research method can be highly efficient. As for example when performing research on topics that requires a longitudinal perspective, such as the internationalization process of Bestseller in Brazil. The qualitative research method has a strong advantage when the observer aims to explain dynamic processes and performs a research study that demands that the information is captured in proximity to the phenomenon.

When choosing a qualitative research approach, there are some theoretical challenges connected with that method. According to Bryman & Bell (2007) a qualitative research method may suffer from subjectivity, and it will be almost impossible to create a replicate study. The objective of this thesis is not to create a replicable study, but to find information that is valuable for the specific case of Bestseller in Brazil. The conclusions cannot be applied to any other firm, as the research study takes into consideration specific internal factors of the case study firm, which should be considered to be unique.

2.3 Research Design

A research design provides a framework for the collection and analysis of data. (Bryman and Bell, 2007). As the researcher proceeds in a case study, by examining the settings and sources of data, plans may change and evolve due to new discoveries that takes the researcher in new directions. (Bogdan and Biklen, 1992).

An in-depth analysis will be performed in order to evaluate the internal and external factors that are likely to affect Bestseller’s operations in Brazil and have a direct influence on their entry mode. After the comparison, the expert interviews will follow. The objective of this is to add further knowledge to the analysis and impact the analysis in a way that elevates the validity of the study.

After gathering sufficient relevant information, a discussion will be conducted where relevant factors are evaluated in order to suggest an entry mode that suits Bestseller as a firm.

Single versus Multiple Research Design

According to Yin (2003), there are two kinds of case study designs. Single research design
and multiple case study design, in which the cases can be either embedded or holistic. In this thesis a **single case study** has been chosen, as the focus will be exclusively on Bestseller.

The single case study uses a **holistic approach**, which means that Bestseller is studied as a single case and is regarded as a single entity.

According to Ghauri & Grönhaug (2010), three different research designs, can be distinguished depending on the problem structure of the study.

Source: Own production

**The Exploratory design** is used when the research problem is not properly understood. The key characteristic of an exploratory design is an unstructured problem structure, where flexibility is a key factor in solving the research questions. If a new piece of information becomes available during the study, the researcher may change direction and adapt his research objective in order to include this new information. The key requirements for performing an exploratory study are the ability to observe, collect information and construct an explanation that is theorizing.

A second option is a **Descriptive approach** which is a research approach where the problem is structured and well understood. Ghauri & Grönhaug (2010) uses an example of a firm that wants to look at the “size of market X”. In that scenario, the research problem is clear, and what is needed is a classification of what is meant by the “market”. Which could be number of people, actual potential buyers or similar measurements. The task of the researcher is to produce the required information. The key characteristics of descriptive research are structure, and procedures.

The last research approach is known as **Causal research**. This form of research also requires
structure, but in contrast to descriptive research, a causal research also includes cause-and-effect problems, where the main objective is to isolate the causes and analyse to what extent the causes are the reason behind certain events. The causal model is used to examine whether one variable can determine the value of another variable. (Ibid)

After considering the different research options, a descriptive research approach has been chosen for this research study, as it supports the research question structure of Bestseller in Brazil, where the study aims to clarify which entry mode should be used, based on the elected internationalization theories, considering the internal and external factors that are applicable to the specific case.

2.4 Data Collection

When collecting data for a case study, it is recommended that you collect information from multiple sources, both primary and secondary. (Carey, 2009)

In case studies, data collection often involves analysing and dragging out useful information from documents as part of the secondary data research process, and interviewing and observing as part of the primary data process.

Collecting data from multiple sources is significantly important for the researcher, as various sources gives the opportunity to cross-check and validate the findings. (ibid) Therefore, both primary and secondary data collection have been applied to this research study.

Primary empiric data – Case study approach

The intention of collecting data from primary sources is to acquire a deeper understanding of certain specific circumstances. In this specific thesis, when advising a recommended strategy for Bestseller in Brazil, it is important to seek advice from people with expert local knowledge, in order to be able to include factors that may not be found in secondary data.

The process of collecting primary data is often a time-consuming task, as the right candidates have to be identified and contacted, and thereafter interview guides have to be created and the actual interviews have to be conducted (Saunders, M., Lewis, P. & Thornhill, A. 2003) But in this case, both Bestseller and the Danish General Consul have been very cooperative in sharing their knowledge, which has helped to ease the process.
Yin defines a case study as the following:

“A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”

(Yin, 2009, p. 13)

**Secondary data:**

Secondary data will also be used in this thesis, in order to gain information from external sources. Secondary data can be found from sources such as in academic textbooks, former research studies or relevant articles both from online and printed sources. Secondary data are interpretations from primary data that has been collected for other purposes, but are able to contribute as a part of the information gathering in the study. When using secondary data, it is always important to perform an evaluation of the data, in order to be sure that it meets the quality requirements that are requested to perform a valid research. (Hox & Boeije, 2005).

![Table 4: Advantages & Disadvantages of Primary and Secondary Data](image)

<table>
<thead>
<tr>
<th>Data</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
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<tbody>
<tr>
<td>Secondary</td>
<td>• Cost &amp; Time</td>
<td>• Lack of familiarity with the data</td>
</tr>
<tr>
<td></td>
<td>• Opportunity for longitudinal analysis</td>
<td>• Complexity of data</td>
</tr>
<tr>
<td></td>
<td>• Subset analysis</td>
<td>• No control over data quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Absence of key variables</td>
</tr>
<tr>
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</tbody>
</table>

*Source: (Krishnaswami & Satyaprasad, 2010, p.90; Bryman & Bell, 2011, p.314).*

The above table illustrates the advantages and disadvantages of the two sources.

The data analysis will start by connecting the theory with the empirical data, in order to create a pattern match. Pattern matching is a common process for descriptive case studies (Yin 2009). The author will use his own personal judgement and logical intuition when making decisions in the data analysis. This will be done by linking the collected data with the investigated theories that are being analysed.
When deciding a data analytical approach, Bryman & Bell (2007) mention grounded theory, narrative analysis and induction as the most common approaches. In this thesis a grounded theory has been elected. Grounded theory is theory based on data collected systematically and analysed as a part of the research process. It is an iterative process, where collection and analysis of data is proceeding simultaneously.

The main principles of grounded theory are sampling, coding, comparison and theoretical saturation. By applying coding into the research, data obtained throughout the research process is analysed and placed into a suitable section of the thesis. The researcher keeps investigating new sources of information until the objective has been reached by gathering sufficient valid data. (Ibid)

By sorting out the information obtained into its right category, for example if obtaining information about Brazil's market conditions; the information is then added to the section concerning the external market factors of Brazil. This enables an efficient allocation of the data.

The same principles were applied in the interview framework, where the questions followed the same pattern as the theoretical framework of the thesis, in order to create a structured data analysis through the entire thesis.

**Designing the interview guide:**

The two interviews in the thesis have been conducted in two different ways.

The first interview with the Danish General Consul in Brazil, **Eva Bisgaard Pedersen**, was conducted through a recorded telephone interview.

The second interview, with the South American representative of Bestseller, **André Contreras** was conducted via email due to his explicit request.

Merriam (1998) argues that interviews can be divided into different types, determined by their structure. There exists highly structured, standardized, semi-structured and unstructured interviews. (Merriam, 1998).

A *high-structured interview* approach limits the respondents chance of answering freely, because of the uniformity of the questions. However, it can be effective in some situations. This technique was used to interview **André Contreras**, as it was the only option when interviewing through e-mail.

The second option is to conduct an *unstructured interview*, which serves more as an informal
conversation between the interviewer and the interviewee. Merriam (1998) argues that this form provides greater flexibility in the interview. However, it can be difficult to keep the interview on track, and interviews may take wrong directions.

The interview with Eva Bisgaard Pedersen has been conducted by using a semi-structured approach. This gives the interviewee the opportunity to express oneself, by sharing experiences and opinions. This ensures a degree of flexibility that keeps the speech free and allows the interviewee to add any relevant information that he or she may find useful for the research purposes. (Merriam, 1998). By conducting a semi-structured interview, the researcher has an interview guide that should be followed doing the interview. (Bryman & Bell, 2005).

2.5 Credibility of the research

Validity and Reliability:
When performing a qualitative study, validity and reliability are according to Bryman & Bell (2011), the most significant quality criteria when evaluating the quality of a qualitative research study. Yin (2009) argues that the quality of a research is only measurable if there is the chance to measure its validity and its reliability.

Yin (2009) demonstrates a way to test the validity and reliability through a four-step guideline, which is illustrated in the table below:

<table>
<thead>
<tr>
<th>TESTS</th>
<th>Case Study Tactic</th>
<th>Phase of research in which tactic occurs</th>
</tr>
</thead>
</table>
| Construct validity     | ✦ use multiple sources of evidence  
✦ establish chain of evidence  
✦ have key informants review draft  
case study report         | data collection                      |
| Internal validity      | ✦ do pattern matching  
✦ do explanation building  
✦ address rival explanations  
✦ use logic models         | data analysis                        |
| External validity      | ✦ use theory in single-case studies  
✦ use replication logic in multiple-case studies | research design                      |
| Reliability            | ✦ use case study protocol  
✦ develop case study database   | data collection                      |

Source: Yin, 2009
This thesis will follow the framework of Yin (2009), in order to ensure the best possible validity and reliability.

**Construct Validity:**
Construct validity is concerned with identifying correct operational measures for the concepts being studied. Yin (2009) stressed the importance of taking advantage of multiple sources of evidence in a case study.

In this thesis, evidence of multiple sources is provided by conducting interviews with different sources. The phone interview was recorded and reviewed in order to provide exact information. Though the in-depth interview with the Danish Trade Consul, it has been possible to collect rich data for the thesis that has offered key information, which has been used to reach the conclusion for this thesis. Rich data is detailed data that offers enough variation to provide a full and revealing picture of the relevant topic. (Cobin & Strauss 2007). The same principle has been applied regarding secondary data. A wide variety of sources have been used to collect secondary information.

**Internal validity:**
The second test in Yin’s framework is internal validity. The internal validity is an important factor in qualitative research, as a prolonged involvement with research allows the researcher to ensure a high level of consistency between observations and concepts. Internal validity is concerned with testing whether there exists a correlation between the theoretical framework and the observations made by the author. (Brymann and Bell, 2007). This thesis has focused on ensuring internal validity by gathering a large amount of data from multiple trustworthy sources, in order to evaluate multiple views and recommendations on entry mode.

**External validity:**
External validity is concerned with how the research results can be applied to other situations. Yin (2009) explains that external validity is the problem of knowing whether a study's findings can be applied beyond the immediate case study.

Critics have argued that external validity is a major barrier during case studies, as single cases offer a poor basis for expanded application. According to Yin, (2009) such critics are implicitly contrasting the situation to survey research, in which a sample is intended to reach out to a larger audience. When dealing with case studies, this analogy is not applicable. The
investigator is merely striving to fit a particular set of results to a broader theory. (Ibid) The idea behind this thesis is not to create a generic research result, but to create a specific result from Bestseller’s situation in Brazil.

Reliability:
The goal of reliability is to minimize the errors and biases in a study. In this thesis precautions of ensuring reliability have been taken though an attempt to apply a logical and consistent approach, including an audit trail which clearly states how the data was collected (Yin, 2009). Reliability is in general concerned with whether the outcome of the study is possible to replicate. This means in a scenario where another scholar conducts the same study, the scholar should also be able to reach the same results and conclusion (Yin, 2009).

In order to obtain qualified knowledge to achieve an academic level of the thesis, significant persons from both the case study firm and the Danish government have been interviewed for accuracy.

Nevertheless, the author has no control over whether the interviewees answered the interview questions honestly or correctly. This potentially could impact negatively. However, it is a scenario over which the author has no control. It can be concluded that reliability is obtained in this thesis, with some limitations.

To finalize the methodology section, Yin’s definition of a case study will be referenced:

“A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”
(Yin, 2009, p. 13)

2.6 Boundaries and Limitations

By only using a single case study, Yin (2009) explains that the researchers put all “eggs in one basket”. He continues, that a two case study will be more powerful than those coming from a single case. By selecting a two case study, contrasting situation are offered which can add more explanatory value to the study. In general, critics about single-case studies are reflected in the skepticism that the uniqueness surrounding the case will be insufficient.

Further, the interview with Mr. Contreras were restricted to conversations through e-mail only, which may have resulted in loss of valuable information.

Regarding the choice of building the thesis upon qualitative research may raise critique for lacking objectivity, as the conclusion can be highly influenced by the authors personal
opinion. The mentioned criticism can in many cases be well founded. One of the major drawbacks of qualitative research has been the incapacity of researchers to provide a transparent account of the research methods and proceedings is employed. One of the most commonly applied methods among quality research is interviews, which is a potentially a rich source of data, but also includes a high risk of suffering from biases and limitations. (Marschan –Piekkari and Welch, 2004).

3. Literature Review

When a business chooses to enter a foreign market, it needs to decide on an adequate entry mode to overcome obstacles and barriers in a feasible and cost-effective way. (Grünig and Morschett, 2012).

The entry mode is a settlement that the firm adopts when expanding into a foreign market. Choosing the right entry mode is a crucial choice that affects future decisions on the market and may be the difference between success and failure on the market. (Hollensen, Boyd & Ulrich, 2011).

An entry mode can be defined as the level of engagement that the firm enters the foreign market with, where the different modes affects its influence over its operations, depending on equity level. Brouthers (2013) explains that the firm will choose the entry mode that is predicted to return the highest return on investment. As mentioned earlier, in order to achieve the highest return on their investments, firms should base their decision on a balance between risks and rewards in order to find the most suitable mode of entry. This can all depend on specific factors that may make one entry mode more favourable than others in specific situations (Rienda & Quer, 2007). The business needs to analyse the local market environment extensively, including local regulations and policies, infrastructure, economic environment, corporate laws, purchasing channels and other relevant factors that may affect the firm. (Pan and Tse, 2000).

In this thesis two types of entry modes will be considered, **Equity Mode** and **Non-Equity mode**. The equity modes include joint venture and wholly owned subsidiaries, while the non-equity modes include contractual agreements and export. (Gao, 2004)

The following illustration explains the different entry mode possibilities, depending on whether the firm chooses equity or non-equity. This thesis only considers the possibility of
export, franchise, joint venture and wholly owned subsidiary. These are the entry modes that Bestseller has employed in other markets and because of this they are relevant to this thesis.

The illustration below illustrates the chosen entry modes for this thesis:

Source: Pan and Tse (2000) – Own Production

The illustration below illustrates the chosen entry modes for this thesis:
3.1 Entry mode Theories
In this section relevant literature on entry mode opportunities is explored. It begins with an introduction of the non-equity entry modes, and then continues with equity modes. This section aims to provide the reader with a clear view of entry modes included in this thesis.

3.2 Non-Equity Entry Modes:

3.2.1 Export:
Export is often seen as the easiest way of entering a new market, as it demands fewer resources from the company compared to equity modes. According to Root, (1994) export can be an effective method for firms to gain market experience without being directly involved. This gives the company the opportunity to observe the market and see how its products perform, without taking major risks by getting involved in the market. On the other hand, the fact that the company will have virtually no control due to the fact that their products are distributed and handled by external partners is a major disadvantage. The fact that the business will have next to no control can also be a disadvantage, as the products are distributed and handled by external partners.

When using **direct export methods** a business is able to keep full control over its distribution channels, pricing and product service. This allows the company to retain some sort of control, even though that export, in general, is a low control mode of entering a foreign market. If the firm chooses to use **indirect export methods**, it is normal to use a distributor or an agent who takes care of the export to the foreign market. By using this entry mode, the firm will have very limited control over distribution, pricing and other factors. At the same time, very limited resources are required from the exporter, making it a good option if the firm is seeking a market entry method where the least amount of effort is demanded. (Ibid)

3.2.2 Franchising:
The concept of Franchising originates from the French language where franchise in Anglo-French means *freedom or liberty*, and from Middle French, where the word *franchir can be translated into* to *free*. The company provides the franchiser with the legal right to use its trademark and operation system, as well as on-going support and staff training. (Ireland et al. 2006)
By operating multiple units under a common trademark it allows stores to give the consumer a common consumption experience in all locations where the brand is represented.

For businesses looking to enter foreign markets quickly, without investing major resources in the project, a franchise project can be an effective method of establishing a global presence. Franchising allows flexibility in the internationalisation process, where the licensor gets their brand represented in the market, without a major market commitment. Seen from an economic perspective, the franchising concept can be an effective way of expanding globally and still limiting capital investment, as franchising involves a local partner who will absorb part of the risk and contribute to the project. Franchising allows flexibility in the global expansion process where the firm gets its brand represented in the market, while still keeping a reasonable degree of control, as they still are in charge of many aspects of the representative image.

According to Cateora & Graham (2007) regulations and laws in foreign countries are often favourable towards franchising, as entry by this means tends to result in a local ownership and local employment, which in some countries with tight restrictions may be a significant advantage when seeking to expand overseas.

3.3 Equity Entry Modes:

3.3.1 Joint Venture

Entering a new market through a joint venture mode means that the business will establish a partnership with a local firm that is already operating in that particular market. It is important to note that a joint venture ownership structure is shared, meaning that the firm needs to be able to work closely together and jointly create success in the market. As different cultures meet, there is an increased risk of conflict or opportunistic behaviour arising. This will be discussed at length later in the thesis. Joint venture also leads to greater flexibility, enabling the firm to enter a new market with far fewer resources than would be needed if entering through a wholly owned subsidiary.

By expanding internationally through a joint venture entry mode, Bestseller would be able to skip the long process of needing to fully understand the local culture, establishing distribution channels and other fundamentals, such as avoiding corruption traps. By partnering with a local firm, it is possible to exploit its existing knowledge and business connections, which may in turn lead to a significantly faster expansion opportunity, which can also provide opportunities for saving resources, compared to undertaking the process as a
wholly owned subsidiary.

The equity share of joint ventures varies for each individual case, but while in theory the expanding company will have from 10 to 90 percent ownership. On average the expanding firm holds an ownership distribution between 25 and 75 percent.

The joint venture mode is a popular entry mode for firms wishing to enter a market with strong local experience from the beginning, without having to learn everything from scratch about the market. Therefore, this entry mode is an interesting mode of entry for many firms. (Albaum, G & Duerr, E. 2008)

### 3.3.2 Wholly owned subsidiary:

A wholly owned subsidiary (WOS) is an ownership solution, where the firm has complete ownership. A typical scenario is a business that invests in an entity in a host country while the firm’s main office is located in its home country. (Root, 1997)

This method enables a firm to engage in a market with the highest possible degree of control, as it owns all of its operations, meanwhile it also bears all risks and investment costs that are associated with entering a new market.

By entering through a WOS, the firm has the opportunity to expand quickly in the host country, without having to take external partners into consideration. It also allows a firm to keep its R&D protected, safeguarding against possible opportunistic behaviour from a business partner and keeping control over its brand. It is not uncommon for a company to have the strong competitive advantage of unique knowledge, which needs to be kept secret.

In addition, the business is able to keep all profit to itself, as there are no financial obligations to business partners.

A WOS will require local knowledge about the host country and all required in-house skills. Heavy investments are also required in order to set up a wholly owned subsidiary in a foreign market, as the firm will have to fund all investments needed.
3.4 Entry Mode Models

There are several widely held theories within the international business community regarding internationalisation. Some theories deliberately set out to explain the internationalisation patterns of MNEs or SMEs while others focus on New Ventures or Born Globals.

Four major internationalisation theories for MNE’s will be discussed in this thesis. This will offer a comprehensive overview of the influential factors put forward in the most talked about internationalisation theories. Specific conditions affecting Bestseller in their expansion into the Brazilian market will then be contextualised. This section will review the theoretical aspects of the theories, which will help create the foundation for the analysis.

Empirical literature of three of the most commonly employed theoretical theories within the field of entry mode will be examined. *The transaction cost, The resource-based view and The institutional theory.* (Brouthers and Hennart 2007) In addition, the emerging theory, *The real option theory* has been chosen in order to add an alternative aspect and value to the entry theory.

3.5 Transaction cost theory


He pointed out that firms would continue expanding until the costs of organising an extra transaction within the firm become equal to the costs of carrying out the same transaction in the market. (Coase, 1937)


Williamson’s publications became milestones for the transaction cost theory and have been cited widely ever since. Williamson defined TCT as “the costs of running the economic system” (Williamson, 1985)

In theory, businesses could operate with zero transaction costs under perfect market conditions. But in reality perfect conditions do not exist, and, therefore transaction costs emerge. Under real market conditions frictions between parties can occur, which can be referred to as the transaction costs. Those frictions were referred to as “self-interest seeking with guile” by Williamson (1985). This definition describes the concept of opportunism. Apart from opportunism, the other primary assumption underlying the TCT is the principle of
**Bounded Rationality.** The rationale behind bounded rationality is that despite a business’s attempts to analyse the market in order to grasp its complexity, they are limited by the information available to them. Therefore, individuals are affected by bounded rationality, which reflect business decisions, as individuals manage firms and will decide based on their limited knowledge. (Williamson, 1985)

The two concepts complement each other, as bounded rationality makes opportunism possible, as individuals can have hidden objectives, which is not transparent to the opposite party. This can create problems due to the fact that bounded rationality will make contracts incomplete and create opportunities for the parties to exploit each other. Hollensen (2011) argues that the participating parties can insure themselves as best as possible by applying safeguards, such as legal contracts. Even through contracts can have gaps, applying safeguards such as contracts, can deliver trust and reduce options for opportunism.

In general transaction cost can be divided into two sections, ex-ante costs and ex-post costs. *Ex-ante costs* are those costs a firm faces in connection with creating contracts. It includes search costs and the cost of establishing a valid contract. *Ex-post costs* concerned with monitoring and enforcement of the contract. By monitoring, the firm will measure whether the other party will meet the guidelines that the two parties have agreed upon. These could also include sanction costs, where the firm has associated costs if the other party does not comply with the agreed terms. (Hollensen 2011)

\[
\text{Transaction cost} = \text{ex ante costs} + \text{ex post costs} = (\text{search costs} + \text{contracting costs}) + (\text{monitoring costs} + \text{enforcement costs})
\]

Source: Hollensen (2011)

Brouthers (2002) explains that within the topic of entry mode, TCT is primarily focused on finding an appropriate partner and being able to monitor its performance. To explore the connection between entry mode and TCT further, the next section will focus further on this.

**3.5.1 Transaction Cost Theory and Entry Mode**

Previous studies show that firms following the TCT when entering foreign markets perform better than firms that do not follow the theory. (Brouthers, 2002)

Entry modes ranges from low level of control (franchising and export) to higher levels of
control (joint venture and wholly owned subsidiaries) within the TCT. When a business enters a foreign market it must evaluate its priorities in order to decide how much control it wishes to hold. Higher control means higher commitment and, therefore, increased investment risk, but also opportunities for higher profits. The influencing factors seen from a TCT perspective when entering a foreign market are asset specificity, uncertainty and frequency. (Brouthers & Hennart, 2007)

**Asset Specificity:** The first factor is asset specificity, which Williamson (1985) argued had a strong connection to vertical investments. Asset specificity can be defined as when the firm undertakes investments that are specific to the buyer. Specific assets are considered to be unique assets, which are created to support a specific transaction and, therefore, they are difficult to redeploy by others. (Geyskens, Steenkamp, and Kumar, 2006). Brouthers and Hennart (2007) explains that once such an investment is made, the firm may be exposed to opportunistically behaviour by the other party, as they may alter the price of the product; a situation known as a holdup. In order to avoid a holdup situation, the two parties will construct a contract that specifies the price of the product for the transaction-specific investments. In situations of non-indexical uncertainty, such contractual solutions typically fail.

Brouther and Hennart (2007) argue that when asset specificity is low, entry modes with low commitment are often chosen, and when asset specificity is high the firm will typically choose a higher commitment through an equity entry mode. The reason behind this argument is that when firms possess assets of high specificity, such as unique technology or knowledge, the odds increase that the firm will be exposed to opportunism from the other party, and sharing the knowledge may lead to value loss of the assets. For this reason, firms tend to enter with a WOS when assets are unique. (Brouthers, 2002)

**Uncertainty:** There is a clear distinction to be made within the TCT between external and internal uncertainty. External uncertainty occurs when unforeseen situations within a transaction are considered too capricious to be detected in the ex-ante transaction process and, therefore, are not included in a contract. Often external uncertainty is created due to the influence of market-specific factors, such as cultural differences compared to the firm’s familiar surroundings and domestic risks. An easy way for a firm to gain an understanding of the domestic risk in a specific country can be through studying domestic risk indexes (Williamson 1985). When the firm is subject to factors that create external uncertainty, it is
advised to enter the market with a lower commitment, as it provides an opportunity to wait for new information, and therefore change the investment by either increased commitment or by withdrawing from its investment. Williamson (1979) argues in his paper that low control can help the firm avoid bureaucratic disabilities that comes with high market commitment. The need for the knowledge of a local partner can be found in either a joint venture agreement or a franchise agreement. However, when asset specificity is present, a higher control mode becomes more desirable, as the asset specificity exposes the firm to opportunistic behaviour by partners.

*Internal uncertainty* includes the internal factors inside the firm, which may influence the entry mode in different ways. Anderson & Gatignon (1986) argues that firms with broad international experience often choose increased commitment in new markets, as their broad previous experience means that such firms will have a better understanding of how to enter a new market and how to tackle the risks and uncertainties that are associated with it. On the other hand, businesses with little international experience will find it more difficult to handle internal uncertainty and, therefore, choose decreased control when entering a distant foreign market. (Ibid) Internal uncertainty can arise if the firm faces troubles with their partners or agents, which may be created by difficulties in measuring the performance level. If internal uncertainty is high, then the firm will need to increase its control, in order to adequately monitor and control the situation. There should also be a positive correlation between international experience and the degree of control. With enhanced experience and understanding of the global expansion process, the firm will be in a stronger position to identify risk and improve control, as they can draw upon previous knowledge that may help them avoid entry mistakes. (Gatignon & Anderson, 1988).

**Frequency:** The last transaction cost factor is concerned with the frequency of transactions according to Williamson’s publication (1985). The frequency topic has received far less attention in academic studies compared with the two other factors. (Rindfleisch and Heide 1997). Empirical studies such as that of Anderson and Schmittlein (1984) and Maltz (1993) have not shown any positive correlation between governance mode and transaction frequency. Therefore, this paper will not place much emphasis on frequency, due to its lack of empirical evidence.
3.5.2 Critical view of Transaction Cost Theory

Despite its wide recognition among scholars, the theory does have its limitations. It is criticised for only emphasising transactional behaviour, and meanwhile ignoring other opportunities, such as integrated creation of value through corporations. In some markets, the cost of transactions can be difficult to measure. For example, in developing markets, high-levels of uncertainty can result in high transactions, but the transactions can be difficult to predict due to the high level of uncertainty, which makes the predictive power of the theory decrease. In order to improve the shortfall, better measures must be developed within the theory, as the existing theory is too broad within that particular field. (Carter & Hodgson, 2006) It can be difficult to measure which direction a firm should take, when contradicting results are present. An example of this would be a firm with large international experience that would generally be expected to elevate to a high degree of control. However, if the firm enters a culturally distant market, in which it has no similar experience, uncertainties will arise which within the TCT signals a degree in control. Ghoshal & Moran (1996) points at the presumption of opportunism. They argue opportunism is a “self-fulfilling prophecy”, where opportunistic behaviour promotes the need for sanctions and surveillance, which in return increases opportunistic behaviour even more. Luo & Zhao (2004) found that in spite of irregular results among scholars, there exists a general consistency with the predictors of the TCT framework. As the TCT has its shortcomings, different entry mode perspectives will be added to complement the TCE framework. The following framework will be the resource-based view.

4.6 Resource-based view

The theory of Resource-Based View (RBV) originates from Penrose´s work *The Theory of the Growth of the Firm* (Penrose, 1959) and was developed by Wernerfelt (1984) and then further expanded by Barney (1991) and Madhok (1997). Barney (1991) explains that the company may develop specific resource-based capabilities that allows the firm to gain a competitive advantage. Experience is often considered an example of such resource-based advantages. Experience makes it easier for the firm to deal with new foreign markets, as they can draw on previous experience. (Brouthers & Hennart, 2007).
The fundamentals of the theory is the question, how and why some firms are different, and how their capabilities can be turned into competitive advantage resources giving them an advantage when entering a foreign market.

This theory considers the resources of a firm to be heterogeneous. RBV is especially interesting seen from its viewpoint of competitive advantage, where traditional theories often describe competitive advantages as an external paradigm, the RBV sees it as an internal paradigm, where the firm can obtain competitive advantages from within. (Wernerfelt 1984).

This makes the theory differ from other theories included in this thesis, and will, therefore, help to impart diversity in the entry mode perspective.

Barney (1991) states that the following attributes must be fulfilled in order for the business to maintain the potential of a sustained competitive advantage. Grant (1991) developed a framework in his publication called ‘The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation’, showing the anatomy behind the model and explains in steps how the model works through his practical framework, from identifying the firm’s capabilities and resources all the way through to selecting a strategy.

### Valuable
- can be used to exploit opportunities and/or neutralize threats in a company’s environment.

### Rare
- limited in supply and not equally distributed across a company’s current and potential competition.

### Imperfectly Imitable
- difficult to replicate by other companies, due to the social complexity, causal ambiguity and specific historical circumstances.

### Non-Substitutable
- one resource cannot be simply replaced (or substituted) by another one.

Source: Own production

**3.6.1 Market entry with RBV**

Based on the RBV perspective, a firm will enter a foreign market based on its available competitive resources and knowledge. Madhok (1997) argues that a firm will seek to enter through a high control mode, if the firm has strong transferable resources and
knowledge. Similarly, if the firm enters a market in which it has no similar experience and no competitive advantages, it will better off collaborating with a local firm in order to gain the highest possible amount of competitive advantage.

In general the main focus of the RBV theory is to exploit a business’s own specific resources when entering foreign markets and how the business can possibly transfer its specific knowledge into competitive advantages in the new markets (Meyer, Wright & Pruthi, 2009).

In contrast to TCT, the RBV perspective is only concerned with obtaining as much competitive advantage as possible, and is not concerned with opportunism, where a partner firm may show opportunistic behaviour. This fact makes the RBV more open to collaborating with local partners. (Madhok, 1997)

The reason why the RBV is separate from opportunism is due to the rationale that it will be time-consuming and costly to develop resources and capabilities that other firms possess, and, therefore, the most efficient way to achieve the desired competitive advantage is to take advantage of its partners' resources. (Ibid) Therefore, a firm must perform an internal analysis to determine its resources and capabilities and decide which resources are transferable. If the firm finds that its resources are not convertible to create competitive advantage in the new market, the firm will not deploy their resources in the market. The transfer of knowledge simply fails due to the difference in market conditions, causing the restrictions on the usage of specific knowledge. In such cases, competitive advantage can only be found by collaboration with firms that already possess the desired resources. This will lead to a lower commitment and control in the market, and will typically be performed through a joint venture or a franchise agreement. (Sharma & Erramilli, 2004)

Compared to the TCT, the RBV is more complicated for a firm to apply, as it may be difficult to determine which factors are transferable in a new market, and which will be eroded.

### 3.6.2 Critical view of the resource-based view

The RBV lacks a critical view of transactions, and may often find a collaborative market entry mode preferable, compared to a full commitment WOS, as the theory ignores any chance of opportunism, which may be critical when asset specificity is high.
The theory focuses on the core competencies of the firm, which is within the internal resources. This can stop the business from fully expanding and learning new competencies. The firm’s core competencies may end up becoming core rigidities, “when established competencies become too dominant” (Sharma & Erramilli, 2004).

Another criticism is that a firm must identify opportunities in a market, and then organise a process within the firm's internal resources that can respond to the opportunity. In this scenario, the firm has an opportunity to organise and coordinate capacities at its competitive parameter. Competitive advantages arise from developing present capabilities that are beneficial to the environment of the organization. But in some instances businesses will not be able to replicate those capabilities in a phase that is needed to respond successfully.

To sum up the theory, in can be argued that the business from the perspective of this theory will choose its entry strategy based on an evaluation of the required abilities that entering the new market demands. If their own knowledge base is too narrow or the cost of transferring firm-specific knowledge is too high, it will seek to collaborate with the market.

3.7 Institutional Theory

Institutional Theory (IT) is concerned with the “rules of the game” of the individual country, where its institutional environment affects the firm’s entry mode of choice. IT tends to focus on the difference between host and domestic factors.

The rationale behind this theory is how businesses follow certain norms, both formal and informal in order to achieve legitimacy in the host country, providing the firm with the acceptance that will enable it to do business in the foreign market. (Brouthers & Hennart 2007) Factors affecting the mode of entry can be found in both the internal institutional environment of the firm, as well as applicable external factors in the host country. (Davis et al. 2000)

When entering new markets that are dominated by a weak institutional environment, as it is often the case with emerging markets, an institutional analysis is important to conduct, before entering the market. (Sternquist & Huang, 2007).

When discussing institutional environments, academic papers tend to focus on the risks and uncertainties of the host country that may have a decisive influence on the entry mode choice.
Brouthers (2002) mentions five different uncertainty and risk factors that he found to be important factors in determining entry mode choice: product, government policy, macroeconomic, materials, and competition.

Institutions create the social structure where transaction-related costs are created, and, therefore, IT must be combined with TCT. In some cases, it is possible that a country's institutional environment creates situations where the predicted entry mode of TCT will not be the preferred choice, compared with IT suggestions. An example of this could be that TCT in some cases would encourage a company to commit fully to the market through a WOS, but the institutional structure in the given country may exclude scope for international expansion, due to legal restrictions on ownership.

In a well-functioning society, institutions should reduce transaction related costs for businesses entering the market, as reducing uncertainty helps to classify the rules and norms, making it easier for a firm to navigate the market. On the other hand, weak institutions can magnify transacting costs in the transition context. (Meyer, 2001)

3.7.1 Institutional theory and entry mode:
Swoboda, Zentes and Elsner (2009) argues that in the retail industry, institutional theory plays an important role, due to the need to adapt to the foreign market and establishing a network of stores.

Scott (1995) suggests that a country’s institutional environment can be divided into three different factors: Regulatory dimensions, cognitive dimension, and normative dimensions. These are determining factors that influences the manager’s choice of entry mode, as they determine the way in which business should be conducted in the respective countries.

**Regulatory pillar**: Defines what organizations and individuals may or may not do in the particular environment.

**Normative pillar**: Defines what organizations and individuals should or should not do.

**Cognitive Pillar**: Defines what “is/is not” and what “can/cannot be done” where “can” implies ability.

**The regulative pillar** is concerned with political and legal factors in the host country. This pillar is highly critical to a firm’s decision to expand overseas, as local laws and rules can prevent specific entry mode in the host country. The laws will often differentiate from country to country although some regions have some common laws due to unions, such as the European Union and Mercosur in South America. Sternquist and Huang (2007) suggests that
country-specific regulations should be the first thing that a business considers when planning entry mode into a foreign market.

Yiu and Makino (2002) argue that there is a connection between environmental regulations in the host country and the preferred entry mode. Higher regulation leads to a more widespread use of collaborative entry modes, such as joint ventures. The reason behind this is due to the fact that collaborating with a local partner can help the firm enter the market without being affected by its regulations, in addition, the firm also has the opportunity to learn how to deal effectively with local authorities through a collaboration with the local partner.

The normative pillar is concerned with the cultural values and social norms of the host country, which the firm is expected to comply with in order to internationalize its organization into the market successfully. (Scott, 1995) When the cultural difference is significant between the firm and the host country, it may be harder to rightfully adapt to the new cultural aspects, as the social legitimacy can be time-consuming to build. In this scenario, firms tend to choose to enter the market through collaboration with a local firm that is already in possession of significant social capita, which will help ease the integration process. Stenquist and Huang (2007) refers to Hofstede’s cultural dimensions theory (1983) and argues that the normative pillar is also affected by the firm’s own cultural dimensions, as businesses that originate from masculine cultures tend to enter new markets with the highest possible equity mode in order to maintain as much control as possible.

The cognitive pillar is the last pillar within the institutional theory. This pillar is concerned with the interpretation of the environment, where the cognitive frame is used to create meaning and set reality. It helps by providing a guideline for choosing meaningful actions based on what would make sense in a particular situation. (Scott 1995) Firms often decide their mode of entry based upon previous modes of entry that the firm has undertaken in the past, meaning that businesses tend to re-apply an entry mode that previous successful entrants have exercised (Ibid). The institutional theory is an especially important theory in emerging markets, where institutions are often not as well developed as in the western world. Meanwhile the theory is less relevant in developed countries. (Peng, 2002). Therefore, this theory would have been omitted, if the task of the thesis were to suggest an entry more for Bestseller in a western country. But as this thesis is concerned with internationalization in a developing country, the theory plays an important part of the analysis.
3.7.2 Critical view of the Institutional theory

Even though the institutional theory holds explanatory power, it still has its limitations. For instance, its ability to deliver coherent explanations of political phenomena, limits its usefulness. One of the major problems is the challenge of measuring political institutions. It is clear that such institutions exist in each country, but it is hard to define how they exactly vary. In addition, such statements as may be available from institutional theory may be overly static, and unable to process the dynamics and complexity of the modern political world.

The theory holds the same view as the transaction cost theory, where a large difference in the institutional environment leads a firm to enter through lower commitment, as the firm will be better off forming a collation with a local firm, as the cost of doing business alone increases. However, in some cases that can be overruled, if a firm is able to understand the local institutional environment. If the firm understands and interacts under those circumstances, then it may not be necessary to collaborate. By following the theory a firm may be inspired to collaborate even though it has a sufficient understanding of the environment to operate a WOS. (Brouthers K. D., 2002).

3.8 Real Option Theory

Real Option Theory (ROT) suggests that a firm does not have to make a final decision about an investment project, by the time it purchases its option. Businesses are often exposed to high levels of uncertainty when entering a foreign market. The uncertainty can either turn out to be a challenge for the firm, or it can create potential opportunities. (Leslie & Michaels, 1997) The investment opportunities modelled by ROT provide the firm with the flexibility to react to new available information about the market, which can cause the business to either expand investments or abandon their investment project. (Li, 2007).

In recent years, there has been a growing interest for ROT in connection with internationalization strategy among scholars (Tong, Reuer, Peng, 2007). Although the theory has experienced growing interest, it must still be considered to be a relatively loosely defined theory within international business literature.

The theory has its roots in traditional financial option theory, where a holder has the right to buy and sell stocks at a pre-determined value. The theory was first mentioned in academic literature in 1977 by Myers. (Myers 1977) ROT differs from traditional financial options, as real options within internationalization are a non-tradable asset, opposite traditional financial assets.
Li (2007) explains about real options within international strategy as follows: “Making an international investment creates real options when managers in MNEs obtain the right but not the obligation to take a future action (e.g., deferring, expanding, contracting, or abandoning)” and continues.

“In order to provide a real option, an international strategic investment needs to meet two requirements; primarily, there needs to exist volatility regarding future payoffs of the specific project. Secondly there needs to exist a commitment flexibility that can be adjusted according to the resolution of uncertainty the firm may experience in the foreign market”. (Li, 2007)

3.8.1 Entry Modes from a Real Option perspective

When expanding into foreign markets, MNEs will often be exposed to some variety of uncertainty. ROT divides uncertainty into two groups: exogenous and endogenous uncertainty. (Folta 1998)

Exogenous means external uncertainty that can be caused by macroeconomic factors such as political or economic changes in the market. Factors that are not influenced by the firm’s internal actions, but solely by outside factors.

Endogenous factors are influenced by microeconomics, and will often be due to business level relationships within their partnerships. Li (2007) explains endogenous uncertainty as lack of complementary knowledge. Such knowledge could be a lack of government relations and local distribution channels.

Uncertainty is the key parameter in ROT. The theory associates uncertainty with potential opportunities and challenges and focuses on how a business can benefit from uncertainty. A high market commitment and strong corporate control may result in less flexibility for MNEs, which reduces their ability to take advantage of the new information.

In order to keep its options open to future market potential, ROT suggests entering the market with a high level of flexibility, which can be obtained by a lower level of resource commitment, such as a franchise, joint venture or export. (Leiblein 2003).

Export: Export is the simplest form of internationalization, as low commitment is tied to such expansion. This reduces uncertainty for the investing firm, but also limits its options to rapidly expand in case market conditions turn out to be favourable, and expansion is a logical move to increase profits.
**Franchising:** The opportunity to enter the market through franchising is an entry mode, which helps to reduce uncertainty. This provides an opportunity to withdraw easily for the market if the market conditions do not meet the desired objectives.

**Joint Venture:** Joint venture entry mode is the most widely analyzed entry method in the literature of real options. (Li 2007)

By entering the market through a joint venture solution, the firm has the opportunity both to downsize or upsize its investments, either by acquiring its partner’s equity or by abandoning its investments if uncertainty turns out to be unfavourable. (Buckley and Casson 1998)

Buckley and Casson (1998) further argues that within the ROT, the joint venture option contains the highest growth option, compared to franchising, as the firm can buy out its partner, if unexpected growth occurs.

**Wholly Owned Subsidiary:** When entering a foreign market through WOS, it naturally creates real option limits, as this entry mode makes it costly to abandon the market in case of market decline, or if the firm no longer wishes to have a market presence.

On the other hand, WOS makes it easier to respond to a positive market performance, as WOS lowers the costs of capacity expansion. WOS also makes it easier for the firm to capture market information about the host environment, which again enables the business to quickly recognize market opportunities and respond. (Li 2007).

ROT contributes to the international business literature by adding a new perspective, where uncertainty can be seen as an opportunity that firms are able to seek advantage from by adding real options into their strategy, giving them the opportunity either to abandon or
expand their investments, either by redrawing from the market or by increasing its market commitment. (Li, 2007).

3.8.2 Critical view of the Real option theory

The real option theory may be restricted by manager’s real options to react to new information. Although it might seem simple from a theoretical perspective, it demands that businesses are actually able to obtain new information, and are able to make changes upon receiving the new information. This means that the firm must be able to understand the value added by real options and is able to exercise them at the right time. Further, according to Brouthers, Brouthers & Werner (2008) another issue can be the difference in the levels of previous international business among firms, which cause differences in their ability to react to changes. Firms with a broad experience have in general greater strategic flexibility than firms with no or little previous experience. The theory does not take this important factor into account.

4. Factors affecting Bestseller in Brazil.

The entry mode choice is influenced by numerous factors that can broadly be classified as internal and external factors to the firms (Hollensen, 1998). Previous research studies have
revealed three main factors, influencing fashion firms when choosing their entry mode into foreign markets. (Lu, Karpova, & Fiore, 2011): The three factors are Market-specific factors, Country-specific factors and Firm-specific factors.

These three factors will in this thesis be divided into two groups for analytical purposes. Internal Factors and External Factors. The purpose of the internal analysis is to reveal the firm’s internal capacities, which will help give an indication as to the opportunities available to the firm when aiming to expand its connection with their internal resources. The external part focuses on the external environment and attempts to evaluate how these factors can influence the mode of entry. In the external analysis, the PESTEL model has been utilized as an analytic tool to evaluate the external environment. The PESTEL model is a comprehensive and flexible analysis tool, which serves as a strategic planning tool for businesses wishing to expand their business abroad. (Recklies, 2006). PESTEL analyses the following factors; Political Factors, Economic Factors, Socio-Cultural Factors, Technological factors, Environmental Factors and Legal Factors.

The analysis of the internal factors will be based on the work of Hollensen; who is a well-known and widely cited author within the entry mode strategy. The analysis will be based on Hollensen’s two books about Global Marketing published in 2011 and 2014 respectively, in which the influencing factors are: Firm size, International experience, Product complexity and The firm’s characteristics.

4.1 Introduction to Internal factors

According to (Hollensen, 2011) various firm-specific factors can influence which entry-mode strategy is chosen. In this context, it is acknowledged that business-specific advantages are of great importance when it comes to international trade and expansions (Krugman, 1980). The relevance of firm size, international experience, the product and the firm’s desired characteristics are presented in the following internal factors framework.

Firm Size

A firm’s size can be measured by its resources. The larger a firm is, the more resources it has available and vice versa. This has a significant impact on how much capital, research and development or labour the firm can ultimately invest in entering a new market (Bonaccorsi, 1992).
It is clear that a small SME seeking to expand into a new market will not have the same capacity as an MNE with years of experience and unlimited resources. Therefore, the size of a firm is an important determining factor when planning its entry mode strategy. The larger the enterprise, the greater the likelihood of a higher degree of internalisation. While smaller firms frequently choose to use export modes in order to keep their resource commitment low, they will also look to increase its hierarchical form as it develops. (Hollensen, 2014).

**International Experience**

According to Hollensen (2014) the degree of international experience is an important factor when deciding on a particular entry mode into a new market. The degree of market experience and international experience can reduce uncertainties associated with entering a new market, as managers will have gained experience from previous operations. This is particularly helpful if the business has previously entered a marketplace that is culturally similar to the new market as management will have gained invaluable experience. This often results in a hieratical entry mode, while entering a market with a distant culture does not have the same advantage. (Dow & Larimo, 2009)

**Product complexity**

Product complexity is another factor that influences entry mode according to Hollensen. There are various characteristics of a product, which may affect the choice. If the business sells a technical product with a high level of complexity, it requires the business to commit a lot more resources, and manpower as customers may require both pre-sale and after-sale service, which as the transaction cost theory demonstrates is known as ex-ante and ex-post transactions. (Blomstermo, et al., 2006).

Asset specificity is closely related to the product complexity. This stems primarily from the transaction cost theory and occurs when a firm undertakes investments that are specific to the customer. Firms possessing assets of high specificity have a tendency to enter the market through a high commitment entry mode, in order to protect its assets. Therefore, the asset specificity is closely related to the product complexity that is crucial to the decision-making process of a business choosing its entry mode.

**The firm’s characteristics**

Since the top management determines the firm’s overall strategy, it is relevant to focus on the firm’s attitude to risk, flexibility and control. If a firm is generally risk-averse, it would be
natural for it to enter new markets by external means. (Hollensen, 2011). How much control the firm wants to have over its foreign operations is also a key determining factor. Firms looking for a high degree of control are generally those with a lot of resources at their disposal. (Hill, 2008).

Conversely, firms seeking the flexibility of control can enter a market with a much lower commitment, which is a less costly entry mode compared with internal global expansion. This flexibility can be of great value in certain scenarios, as the firm will have the ability to respond to future market conditions. (Brouthers, et al., 2008). It also provides the opportunity to either intensify its investments or to draw its activities out of the country.

4.2. Empirical findings:

4.2.1 Analysis of the External Factors

To apply the entry mode theories in practice, it is essential to understand the factors affecting the business which needs to adapt to the external environment of the new market to stand the best chance of success. Therefore, the following section will analyse the external factors that may affect Bestseller’s preferred method of entry into the Brazilian market. These findings resulting from external factor analysis will later be used to help offer recommendations on the entry mode of Bestseller.

PESTEL analysis of the Brazilian market

Since it is important to include the external factors in its assessment of the entry mode, a PESTEL analysis will be conducted to analyse macro factors. The PESTEL framework is a method of analysing the macro environment of a firm. By analysing these factors the business may obtain a greater understanding of the external factors that influence the host country, and thereby fully prepare itself before entering the market. These factors are not mutually exclusive, and many of the factors affect the firm from several angles (Lynch, 2006, p.84-85)

P (Political Factors)
E (Economic Factors)
S (Socio-Cultural Factors)
T (Technological Factors)
E (Environmental Factors)
L (Legal Factors)
4.2.2 Political Factors:

Political Stability

Brazil is being led by President Dilma Rousseff, who is the representative of the country’s strongest political party - Partido dos Trabalhadores, (the Brazilian Labour party). The president was re-elected on October 26th 2014 to a second four-year term with 51.6% of valid votes after a turbulent campaign. (Economist, 2014). Despite the re-election of Rousseff, 2015 has so far been a year of economic recession and imbalances in the public finances. Corruption scandals are also affecting political stability. Rousseff’s approval rating has sunk nine percent, making it harder to drive through her policies. (gov.uk)

In spite of this, Brazil has been politically stable for more than 25 years. The current turmoil does not seem to threaten the overall political stability in the country. (Bloomberg, 2014). Therefore, there is a great chance that the country will remain stable and secure. A possible side effect of the current situation could be decreased consumer confidence, which may lead to lower consumption, which could affect Bestseller directly.

Governmental interventions into the economy

The Heritage Foundation and The Wall Street Journal have created an index called “The Index of Economic Freedom” (IEF), which is used to measure economic freedom. They base their measurement upon ten different factors, both quantitative and qualitative. The index grades the different factors with a valuation from 0 to 100, where the overall score is then measured by averaging the ten factors together. (The Heritage Foundation, 2014).

When looking at the economic freedom in Brazil, it is clear that governmental interventions have a rather notable impact of the country. As is the case with most South American countries, the economic freedom is rated low. Brazil is ranked 114 in the world with a score of 56.9, putting Brazil in the category “Mostly Unfree”. They share scores with countries such as Bhutan, Djibouti and Benin. In comparison, Denmark is ranking as number 10 on the scale in the category “Mostly Free” with a total score of 76.1.
Brazil’s score from 2010 - 2014

Source: Index of Economic Freedom, 2014

One of the reasons behind the low economic freedom is the government’s policy of paying twenty-five percent more for Brazilian produced goods, compared to foreign goods. This is one of the factors that makes Brazil the most closed among the major economies in the world. (Reuters, 2014).

Corruption further undermines Brazil’s economic freedom, which was evident in a controversy over the world cup in 2014, in which massive nationwide protests flared up due to poor public services and the low level of political and institutional effectiveness. Business contracts in Brazil, are generally considered to be secure. However, the judiciary is inefficient and subject to political and economic influence. (The Heritage Foundation, 2014)

The president of Brazil, Dilma Rousseff, blames Brazil’s modest performance on slow international growth in the aftermath of the global financial crisis. She argues that once the world economy is free of the crisis, Brazil’s economic outlook will improve. On the other hand, critics argue that the steep tariffs, high tax burden and bureaucracy and inflexible labour laws hinder productivity and prevent more foreign investment in Brazil. The Brazilian currency, the Real, has depreciated during Rousseff’s term. The Real has experienced the second-worst decline among the world’s most traded currencies, which is a clear sign that investors are still sceptical to Brazil’s economic recovery. (Bloomberg, 2014).
Mercosur

Brazil has been a member of the World Trade Organization (WTO) since the 1st of January 1995 and a member of General Agreement on Tariffs and Trade (GATT) since 30 July 1948, it is also a founding member of the United Nations (UN), an original member of the International Monetary Fund (IMF), and member of World Bank (WB). Brazil is also part of Mercosur, which is a sub-regional bloc consisting of Brazil, Argentina, Paraguay, Uruguay and Venezuela. There are also a number of associate countries in the bloc consisting of Peru, Chile, Colombia, Ecuador and Bolivia. (European Commission, 2014).

The difference between the members and associates of Mercosur is in the membership of the Common External Tariff (CET), consisting of united pricing on products exported to countries outside the bloc, impeding external competition. The CET is adopted only by members, which are also responsible for the decision-making process, including the approval of the entry of new member countries. (Brasil Escola, 2014) Most products have a tariff of 17 percent while in some cases, for example, clothes they are charged even higher tariffs. Further costs are added to imported goods by way of duties insurance and freight. (Fedex, 2013) Despite reductions on border trade barriers over the last years, the Brazilian tariff rates remain high and favours locally produced goods over important goods. The United States and the European Union are both concerned about the competitive imbalance that these tariffs create, as it creates imbalance and favourable conditions for local firms. (export.gov, 2014)

The graph below compares Brazil with the average tariffs in the world, with the United States, and with the European Union. It is clear that the Brazilian tariffs are notably higher than any others.
The "Brazil Cost"

“The Brazil Cost is a generic term that describes the set of structural, bureaucratic, ideological and economic difficulties which increase and often bar investments in Brazil, hindering national development, increase unemployment, informal work, and even tax evasion”. (José Roberto Campos, Executive Director of the Brazilian Association of Terminals and Customs, BrasilComex, 2007) The “Brazil Cost” is a figure of speech, which is used by firms concerning the Brazilian political environment, seen from an economic perspective. It is clear from the quotation above that Brazil is still a complicated country for foreign firms to trade in, as Brazil has a lot more protectionism than most other emerging markets and developed countries.

Importing goods into Brazil

To import goods into Brazil, it is mandatory first to register at SECEX, which is the Secretary of Foreign Trade in Brazil. To register, SECEX requires a minimum amount of capital. When importing into Brazil, importers will face federal and state taxes, which are value added costs. The taxes can effectively double the costs of importing goods into Brazil, which is a major challenge for importers, as the costs of getting their products into the Brazilian market, can easily be twice as expensive compared to local producers (export.gov).

Brazil is ranked 116 out of 189 countries in the World Bank’s 2014 “Doing Business Report”.

Tariff rate, applied, weighted mean, all products (%)
Firms cite high tariffs, uncertainty in the customs system, high and unpredictable tax burdens, and an overburdened legal system as major obstacles that are barriers to doing business in Brazil.

As Brazil has implemented the Brasil Maior (Greater Brazil) plan, a rise in local protectionism has occurred, with increasing tariffs and requirement to local content. Local firms also benefit from tax breaks. The U.S. Department of Commerce’s International Trade Administration explains on their website, export.gov, that U.S. firms need to find strategic Brazilian partners and find ways to show the government that they are not only entering Brazil to sell goods and then go home. This is a response to Brazil favouring local firms with different initiatives such as the “Buy Brazil” policy, which is a campaign that aims to favour local Brazilian goods over imported goods.

**Tax policy**

The complex domestic tax system, including multiple cascading taxes and tax disputes are an example of the numerous challenges that foreign firms operating in Brazil experience. In the following section a brief review of the import taxes will be presented, together with an illustration that shows a typical listing over import expenses.

There are three main taxes for the bulk of import costs: 1) Import Duty 2) Industrialized Product Tax (IPI) and 3) Merchandise and Service Circulation Tax (ICMS)

**Import Duty**

The Import Duty is a product specific tax charged on the basis of cost, insurance, and freight. Usually, duty rates range from 10% to 35% when importing into Brazil. (Ibid)

**Industrialized Product Tax (IPI)**

The IPI is a federal tax levied on most domestic and imported manufactured products. On local goods, it is charged after sales and on imported goods the tax is charged when importing the goods into the country. IPI taxes is between 0% and 15%. (export.gov)

**Goods and Services Tax (ICMS)**

ICMS is a state tax that differs in percentage in Brazil’s twenty-six states. ICMS reaches its highest percentage in the country’s financial capital Sao Paulo, where the ICMS is up to 18 percent. On average, the ICMS is 18 percent in Brazil. The tax varies depending on the industry and State the firm is doing business with. (Brasil Global Net, 2010)
The example below is a statement of a typical import costs.

<table>
<thead>
<tr>
<th>Product</th>
<th>Electric engines</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNM Classification</td>
<td>4812.02.00</td>
</tr>
<tr>
<td>Country of Origin</td>
<td>China</td>
</tr>
<tr>
<td>Customs Value</td>
<td>(CIF)</td>
</tr>
<tr>
<td>Duties</td>
<td>R$ 70,000.00</td>
</tr>
<tr>
<td>Import Tax</td>
<td>6% R$ 4,200.00</td>
</tr>
<tr>
<td>IPI</td>
<td>4% R$ 2,800.00</td>
</tr>
<tr>
<td>ICMS</td>
<td>18% (specific formula) R$ 12,400.00</td>
</tr>
<tr>
<td>PIS</td>
<td>(specific formula) R$ 600.00</td>
</tr>
<tr>
<td>COFINS</td>
<td>(specific formula) R$ 800.00</td>
</tr>
<tr>
<td>Fees</td>
<td>25% of freight R$ 900.00</td>
</tr>
<tr>
<td>SISCOMEX Use Fee</td>
<td>R$ 70.00</td>
</tr>
<tr>
<td>Wharfage</td>
<td>(port fee schedule) R$ 400.00</td>
</tr>
<tr>
<td>Warehousing</td>
<td>(port fee schedule) R$ 600.00</td>
</tr>
<tr>
<td>Customs Broker</td>
<td>(optional) R$ 300.00</td>
</tr>
<tr>
<td>Domestic Freight</td>
<td>R$ 450.00</td>
</tr>
<tr>
<td>Domestic Insurance</td>
<td>R$ 150.00</td>
</tr>
<tr>
<td>Total</td>
<td>R$ 93,670.00</td>
</tr>
</tbody>
</table>

In this example R$ 23,670 is added in import taxes on this given example, which corresponds to approx. 9202 USD. In import value of R$ 70,000

Political Implications for Bestseller
Having reviewed the political factors, it is clear that Brazil is influenced by protectionism favouring local companies compared to foreign firms that want to import goods into the country. These policies are significant for firms wishing to establish themselves in the Brazilian market. Compared to many other emerging markets, setting up an establishment in the Brazilian market is likely to be cost reflective and a task that requires sharp focus and investment of resources. These factors are likely to have caused Bestseller to select other emerging markets over Brazil so far.

4.2.3 ECONOMIC FACTORS
Brazil has a population of about 200,000,000 people, with a constantly growing middle-class and millions of people who have been lifted out of poverty. (The Heritage Foundation, 2014). Brazil’s economy has been one of the most highly debated topics in Brazil, as the country has experienced an economic slowdown over the past few years, leaving the country in a technical recession, and with an inflation that is above the Central Bank’s tolerance margin. (Focus Economics, 2014). Brazil is the seventh largest economy in the world but suffers from a significant deficit, Meanwhile conditions also look distressing on the trade balance. A trade deficit of 1.1 billion dollars was measured in October 2014, which was the highest ever deficit for the month. (Economist, 2014)
GDP in Brazil
The Brazilian economy experienced a growth of 2.3 percent in 2013. According to the Economist, growth stagnated in 2014, and is forecasted to grow around 1 percent in 2015. GDP per capita is also forecasted to drop, while inflation edged to 6.6 percent in October 2014, which is above the target range of the Central Bank. (Economist, 2014)

Foreign Direct Investment
A look into FDI stats shows that FDI in Brazil totalled $64 billion in 2013, corresponding to 2.9% of GDP. But as economic growth moderates in Brazil, especially within the service industry, Itau, which is the largest bank in Brazil, believes that FDI in Brazil will decrease throughout the coming two years, reaching 2.2% of GDP in 2015. (Itau, 2014)

Retail sales in Brazil
The Brazilian retail industry is relatively large, with a net sale of 762 billion USD in 2013, and estimated sales of 1,107 billion USD by 2018. Shopping malls are hugely popular in Brazil, and they are the favourite place for many Brazilians to spend money when shopping. (Statista, 2014). Several of the leading clothing brands, such as H&M, have refrained from entering Brazil, which may be due to economic turbulence in the past. Despite the hesitation, Fredrik Olsson, head of international expansion in H&M, said in 2014 that Brazil is one of the markets that H&M is currently considering with great interest. (Reuters, 2014)
Another factor that should be taken into account when a firm enters Brazil is the broad cultural diversity that exists in the country. The country consists of different population groups and styles. In the southeast part of the country, the population is mainly of European origin, while the northeast is largely rooted in Africa. This naturally creates different cultures and different fashion preferences. Therefore, Bestseller should carefully review strategic considerations before deciding where to place potential shops, before entering the market, and understand that a country-level strategy is not enough. (Atsmon, et al., 2011)

Implications for Bestseller
Brazil is at the moment affected by a trade deficit and low GDP growth, as well as inflation that is too high compared to the World Bank´s standards. However, Brazil is still a country that has managed to lift millions of people into middle-class standards, creating a strong consumer base. It is also clear from the analysis that retail sales are constantly growing, and that growth is predicted to continue. Therefore, it can be assumed that there is room for a firm like Bestseller in Brazil, which has strong international experience in entering unfamiliar markets.

4.2.4 Socio-cultural environment of Brazil

Population
Today, about 50% of the Brazilian people comprise the economically active population, representing the people who work or are looking for work, while about 32% form the inactive population, which is people who do not work or study, people that are not looking or have not yet compatible age. (Eduardo de Freitas, Geographer, Brasil Escola Team)

The above pyramid illustrates people aged 0 to 19, represent approximately 40% of the population, which is a high percentage and is a positive factor moving forward for Brazil. The tapered body of the pyramid corresponds to people aged between 20 and 59 years, representing about 51% of the population. The apex of the pyramid corresponds to people over the age of 59, corresponding to 9% of the population.

**Cultural Characteristics**

According to Professor Geert Hofstede’s research, the values that distinguish cultures within countries from each other can be categorized into different groups (Hofstede, 1983). These groups became the Hofstede dimensions of national culture: Power Distance (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance (UAI) and also Pragmatic versus Normative (PRA). Exploring Brazil’s culture through the lens of the 6-D Model, gives an overview of the deep drivers of Brazilian culture relative to other cultures. The analysis will focus on the differences between Brazil and the home country of Bestseller, Denmark.

![Hofstede Dimensions of National Culture](image)

**Source:** Hofstede, 2014.

**Power Distance**

The power distance measures the extent to which the less powerful members of a society accept and expect an unequal distribution of power. Brazil scores 69, which indicates that the Brazilian society accepts hierarchy and respects inequalities among people in their society. Denmark scores 18 in power distance, which demonstrates that Denmark sees power distance very differently compared to Brazil. In Denmark, the power distance between people is significantly lower.

**Individualism**

This individualism factor measures whether the mentality in society is pointing towards an individualist or collectivist society. In individualistic societies, connections between individuals are looser, and people act more individualistic. By contrast in collectivistic
societies, people are from birth integrated into groups, they are cohesive, strong, protective, and unquestioning loyalty is expected. Brazil scores 38 in individualism, which indicates that the country is influenced by collectivism, while Denmark scores 74, signalling that Denmark is a highly individual country, where the degree of independence among people in the society is strong.

**Masculinity**
A high score in masculinity is an indication that the country is highly driven by competition, success and achievement. By contrast, a feminism society indicates a society where caring for others and quality of life is a high priority. Brazil scores 49, a very intermediate score on this dimension while Denmark only scores 16, which indicates that Denmark is a strongly feminine society.

**Uncertainty Avoidance**
A society’s attitude towards uncertainty explains the extent to which the members of a culture feel threatened by ambiguous or unknown situations. Brazil scores 76 in the category, which indicates a strong need for rules and legal systems to structure life.

Countries with high uncertainty avoidance, have a strong need for bureaucracy and laws to make the world a safer place to live in.

Hofstede argues ”Brazilians need to have good and relaxing moments in their everyday life, chatting with colleagues, enjoying a long meal or dancing with guests and friends. Due to their high score in this dimension, Brazilians are very passionate and demonstrative people: emotions are easily shown in their body language.”

Denmark on the other hand, only scores 23 in uncertainty avoidance, which shows that the two societies differ extensively from this point of view.

**Pragmatism**
Societies that are pragmatic are oriented to the market while normative ones realize their tasks according to the outside world as implementation of inviolable rules. In other words, while the pragmatic values focus on finding the solution to existing problems, the normative values follow the rules and regulations.
Brazil scores 44 in this factor while Denmark scores 35, which leaves the two countries rather close to each other.

**Indulgence**

Hofstede explains indulgence as "This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called “indulgence” and relatively strong control is called “restraint. People in societies classified by a high score in indulgence generally exhibit a willingness to realise their impulses and desires concerning enjoying life and having fun. They possess a positive attitude and have a tendency towards optimism. They also place a higher degree of importance on leisure time, act as they please and spend money as they wish.” (Hofstede, 2014)

Brazil's high score of 59 marks it as an Indulgent society, while Denmark scores 70, leaving Brazil and Denmark fairly close to each in this aspect.

**Implications for Bestseller:**
The social-cultural analysis of Brazil reveals that there are notable differences compared to Denmark, based on the Hofstede, 6-D model.

The analysis provides an insight into the culture and behaviour of the Brazilian people. The need for a clearly defined status, and the need to uphold the high quality of life and pleasure, combined with a normative approach to life and the tendency to go after immediate emotional impulses, sets a sound basis for Bestseller, whose fashion clothing is appealing to a wide range of people seeking everyday pleasures in everyday life. It is also clear that Bestseller needs to understand the cultural differences that exist in this market. However, since Bestseller has wide experience of opening stores in culturally different countries, this should not be an issue for them.

**4.2.5 Technological factors**
The most relevant technological factor for Bestseller is Internet usage, as it serves as both an advertisement and a sales platform for the firm.

**Internet connection and social media**
More than 50 percent of the Brazilian people are connected to the Internet. According to the Brazilian Institute of Geography and Statistics (IBGE), the proportion of Internet users in the
country increased from 49.2% in 2012 to 50.1% in 2013. Brazil is anticipated to surpass Japan in 2014 by becoming the country with the fourth largest population of the world's Internet users, according to calculations by eMarketer technology consulting. By the end of 2014, 107.7 million Internet users should be active in Brazil, compared to 99.2 million in the year before.” (BBC, November 2014).

According to eMarketer (2013) 79 percent of the Brazilian Internet users are registered on social networks, such as Twitter, Facebook, Instagram and the local Brazilian network called Orkut.

There are around 65 million users of Facebook in Brazil, making the country the second largest country in the world on Facebook (Geromel, 2013). The time each user spends on social media is estimated to rise within the coming years in Brazil while other countries are expected to see a decline on the daily time spent on social media. (Chao, 2013) This is favourable for Bestseller, as it provides an opportunity to reach high numbers of customers through social media. In the concluding section of this thesis, there will be further focus on the impact of social media, as the Danish General Consul reveals the significant role social media will have on Brazil’s success.

Online purchases
Geromel (2013) reports that 61 percent of Brazilian Internet users have made online purchases. He reports that Brazilian consumers typically buy fashion and technology goods when they shop online, with an average spending of $R 359.4.

The Danish research center Nielsen, found that there are barriers in Latin America, despite the users enthusiasm: "There are barriers because of many taxes and fees, high cost to deliver the products in the region and logistical problems". (Exame, 2014). The report also highlights that the Brazilian e-commerce sector grew 250% in the last 5 years. The study predicts that the industry is estimated to reach R$ 115 billion by 2018.

Implications for Bestseller:

The Internet usage of Brazil may be considered mediocre, with a large growth potential. This is a positive sign for Bestseller, as the large presence of Brazilians on social media gives the firm a good opportunity to reach its target group. Bestseller has also stated that their objective
is to become a global e-commerce firm. In which case, the positive social media conditions in Brazil is in alignment with Bestseller’s e-commerce strategy.

### 4.2.6 Environmental factors

Brazil is the largest country in Latin America in terms of both the population and surface area, with the Amazon River running through north-eastern Brazil and the Amazon Rainforest covering about one-third of the country. (GlobalEdge, 2008) Brazil has in the recent years discovered large offshore oil reserves, which some claim is of such a large scale that Brazil can become one of the world’s top oil exporting nations.

Deforestation is an ongoing environmental issue. This is caused by the deforestation of the rainforest. Reports in 2005 estimated that roughly one-fifth of the Amazon rainforest had disappeared due to deforestation, where farmers use the land for cattle and industry firms cut down the trees to use them for commercial purposes such as furniture production. In previous years, Brazil was highly passive to the deforestation, but due to international pressure from various interest groups, the Brazilian government has recently been more proactive in stopping the deforestation, through different initiatives aimed at reducing deforestation to 5,000 square kilometers in 2010, according to government officials. By comparison approximately 27,000 square kilometers were lost in 2004. (BBC, 2014) Apart from the deforestation issues in the Amazon areas, Brazil has environmental issues in the larger cities such as Rio de Janeiro and São Paulo, where water and air pollution is a health problem for some residents. (World FactBook, 2014).

**Implications for Bestseller:**
The environmental factors do not play a significant role in Bestseller’s entry into Brazil, as their products do not fall into the category of those that would have a harmful effect on the Brazilian environment.

### 4.2.7 Legal Factors

According to the PWC report (Doing Business in Brazil, 2013) “The principal source of Brazilian civil law is the Civil Code, which dates from 2002, and subsequent legislation. The legal system is slow and cumbersome”. Democratic doctrine suggests that two instances are enough for the rule of law, but Brazil has four instances up to the Supreme Court. This makes it a long and gruelling process when dealing with the Brazilian legal system.
Employment Law

Employment laws in Brazil are very advantageous for employees. Every foreign company is obligated to be fully aware of the regulations they have to follow, as courts usually side with employees in any labour disputes. The country has one of the highest numbers of labour claims, since the law is outdated and protects the employee. (Andréa Novais, 2012). According to Randy Gulian “Brazil’s largely employee-centric regulations are strictly enforced and have cost many international companies significant money in labour settlements”. (Roy Maurer, 2013).

Firms take significant risks with litigation expenses, as employees are not required to assume the costs. “Further, failing to comply with the strict standards of the law can be extremely costly for employers, particularly considering the statute of limitations for which companies can be brought to court over violations of the labour code, which can be up to five years”. (Ibid) "Intense competition for skills, high inflation and more cosmopolitan workforces are all putting extra pressure on companies in Brazil looking to establish equitable yet attractive pay approaches for their globally mobile staff," explains Lauren Smith, General Manager ECA International, New York, 2013.

Consumer Law

Brazil has an extensive Consumer Defense system, the 1990 Consumer Defense Code (CDC) also strengthens customer rights in the country. For example there are several agencies concerned with standards, quality and supply of foodstuffs, including imported products, and specific regulations on weights and measures must be observed in the consumer products sector. (Doing Business in Brazil PWC, 2013)

Textile products

The Technical Regulation requires that textile products may only be sold if they are posted in each part or item code, the textile composition, which could be the type of fibre and its percentage used for the manufacture of the product. For example: 70% polyester, 30% cotton. If the product is made up of a single fibre, it should be disclosed as 100% or pure. Imported products must contain, in addition to the original label, another label indicating the composition of the tissue, in Portuguese. (Ibid)
Implications for Bestseller:

By entering the Brazilian market, Bestseller will need to adjust to the legal requirements of the country. With Bestseller being inexperienced with Latin American employees, and a legal system strongly favouring the employees, the firm may benefit from involving partners that have local knowledge and experience in handling Brazilian workers.

4.3 Summary:

Evaluating the foregoing factors has created a foundation for carrying out an entry mode analysis. The analysis has shed light over both opportunities and obstacles that Bestseller is likely to face in Brazil. By conducting this analysis, Bestseller has the potential to create a business plan, where they can analyze how important influential factors will affect them.

Among the discoveries in the analysis is that Brazil holds large opportunities seen from the viewpoint that the population is young, which is in line with Bestseller’s audience. While other European countries have the problem that the average age of persons in their countries is very high. The Brazilian population are highly adapters of social media, which can work as an effective market channel for the brand. The constant growth of the Brazilian middle class and retail industry are other factors that contribute positively to the prospects for entering Brazil.

Seen from a critical angle, the company must be aware of the large socio-cultural differences between Denmark and Brazil, which the Hofstede analysis revealed. Moreover, high import taxes and legal factor are some of the challenges that Bestseller is likely to meet. Such as the fact that Brazil has a strict employment law, which Bestseller must be highly aware of complying with. This enables the continuation of the thesis by examining specifically what these factors will have on Bestseller.

5. Entry Mode Analysis

The following chapter will present the different theories views as to the appropriate degree of ownership needed when entering the market based on the information obtained about the market situation, combined with Bestseller’s internal factors.

In the context of this analysis, it will then be possible to outline the preferred internationalization strategy based on a summary of the theories in a combination. After
analysing each factor, an overall conclusion will be presented at the end of this chapter. The chosen internationalization strategy will be influenced by the information obtained in the interviews conducted during the production of the thesis.

5.1 External factors:
In the following section, the knowledge contained in the PESTEL analysis will be used to identify the impact of the ownership decision according to the theories.

5.1.2 Economic environment:
Brazil is at the moment affected by a trade deficit, a decline in GDP growth, and inflation that is too high compared to the World Bank’s standards. Despite the slight economic decrease, Brazil came through the global crisis remarkably better than the western world. FDI also shows positive signs, indicating confidence in Brazil’s future economy. The retail industry enjoyed net sales of 762 billion USD in 2013, and this figure is estimated to rise to 1,107 billion USD by 2018, which indicates a steady growth over the coming years.

From a transaction cost perspective, there are contradictory recommendations. Bestseller should according to Brouthers (2002) seek to enter Brazil through a high control mode, such as a WOS when the market potential is large, as it will provide the biggest profit opportunities. On the other hand, the slight economic downfall increases the external uncertainty. The transaction cost theory suggests that businesses react to external uncertainty by entering a low control mode, as it will ease the resource commitment. Bestseller will then be able to deal with unpredictability by changing agents (Anderson & Gatignon, 1986).

The Real Option Theory suggests that a high market potential should lead the firm to increase its commitment, as it equates to high future growth opportunities. However, when exogenous insecurity is present as is in the recent case of Brazil, the firm should seek collaboration with a local business. This gives the business the opportunity to withdraw out of its investments in a fairly easy manner if the economic instability results in a negative growth rate for the firm. Bestseller has both the option to gain experience in the market and evaluate whether the Brazilian market has the potential for further engagement, which can be obtained by acquiring its partner’s shares.

The Resource-based view and the Institutional theory do not place a high value on the economic environment in the theory. But Madhok (1997) indicated that in the case of RBV, if the firm enters a growing market with uncertainty present in the economic environment, it
should seek collaboration, as the market is not static, making it difficult to develop the necessary capabilities.

### 5.1.3 Legal Factors

Brazil has a slow and cumbersome legal system (Doing Business in Brazil, 2013). Employment laws in Brazil are very advantageous for employees, which have resulted in one of the highest numbers of labour claims in the developed world. As Bestseller is inexperienced with Latin American employees, and Brazil has a labour system that strongly favours the employees, it is important for Bestseller to pay close attention to this matter. The fact that the legal environment is very poor must be considered when viewed from Bestseller’s perspective.

Viewed from the transaction cost theory perspective, Bestseller should enter with an increased control mode, such as WOS. When the legal environment is poor, contracts will be harder to handle with external partners in such an environment. This will result in higher entry costs if entering through collaboration, as the chances of opportunistic behaviour increase in such an environment.

**The real option theory** suggests that in a situation where legal environments are weak, investment risk increases making it important for the firm to have the option to withdraw its investments, if the market proves to be too difficult to operate in. Therefore, it is important for the firm to have the option to withdraw from the market. By contrast, it is favourable for the firm to have the option of increasing its commitment in the market, if its presence turns out to be a success in the Brazilian market. Therefore, Bestseller should start with a collaborative entry mode, and exploit the option to learn over the coming years, and withhold on a decision regarding whether to withdraw from the market or increase its ownership to a later date. The collaborative manner could be though a franchise agreement or though a joint venture partnership.

In its regulative pillar, The Institutional Theory refers to the importance of the legal environment, where Yiu and Makino (2002) argue that there is a connection between environmental regulations in the host country and the preferred entry mode. Higher regulation lead to a more widespread use of collaborative entry modes, such as joint ventures and franchise partnerships. The reason a collaborative entry mode is preferable is that collaborating with a local firm can help Bestseller tackle the legal environment in the best
The firm also can learn how to face local authorities through a collaboration with the local partner.

The Resource-based view is concerned with the potential for transferring internal resources, which in some countries are practically impossible, due to local restrictions. In Brazil, such legal restrictions are not present, and the business is free to transfer resources freely. Madhok (1997) argues that a business will seek to enter through an equity mode, if the firm has strong transferable resources and knowledge. However, since Bestseller has never conducted business in Latin America, their transferable resources are questionable. Entering Brazil will involve acquainting themselves with an entirely new culture. Even though Bestseller has experience in emerging markets, Brazil will be different from other emerging markets like India, Russia and China. When the firm has secured some competitive advantages, it would then be wise to collaborate with a local business to gain the highest possible amount of competitive advantage. By collaborating, Bestseller can go through a learning period, in which they have the opportunity to train their staff and thereby gain a competitive advantage over time. After building up significant competitive advantages over the years in Brazil, the firm should aim towards a full commitment through a WOS to maximize profit.

5.1.4 Political factors

Brazil has been known for its high levels of corruption for many years. The latest on-going corruption scandal that has caught the world's attention is the one described earlier in the thesis, where top politicians and well-known business people have been accused of receiving 3.7 billion USD in bribery in connection with the oil industry. (Economist, 2015)

This level of risk in Brazil means that a business can never be entirely sure that it will not face unfair market conditions. At the same time, the Brazilian government is favouring local production and hits foreign firms with high taxes and complex import regulations.

The Transaction Cost Theory sees political risk as an external uncertainty. The theory endorses entering the market with low commitment in these conditions, to provide the firm with the opportunity to wait for new information. They can then either change their investment by either increasing its commitment or withdrawing from its investment. In general it is advised to lower control if the country risk is high. (Gatignon & Anderson, 1988)

For example, an export may be a good way of initiating their market entry, as they will have time to learn further about the situation before engaging further.
Through its regulatory pillar, the institutional theory suggests that when the institutional environment is largely different in the new market compared to its domestic market, then the firm should enter with a lower commitment of resources, as the cost of business may increase. Bestseller should, therefore, collaborate and gain intelligence about the political environment, before increasing its commitment to the Brazilian market.

The resource-based view is only concerned with obtaining as much competitive advantage as possible and does not take into consideration factors of opportunism that could place Bestseller at a competitive disadvantage. The high degree of corruption may affect the firm’s ability to transfer resources. Therefore, seen from the RBV perspective, it is preferable to obtain local market knowledge through a partner.

The real option theory perceives a weak political environment as an implication of uncertainty. In such instances, the business should enter the market through a low commitment, to leave open the possibility of abandoning the market in the event that the forces affect the business in a negative way.

### 5.1.5 Socio-cultural factors

The sociocultural environment has in the thesis been measured through Hofstede’s dimensions. To understand the Brazilian situation, factors have been compared with Bestseller’s home country Denmark, which helps provide an understanding as to how Brazil differs. Through the analysis, it became apparent that according to Hofstede’s scale, from a sociocultural perspective Denmark and Brazil are worlds apart.

The transaction cost theory demonstrates that there is a correlation between the sociocultural distance and the firm’s market commitment. The larger the sociocultural distance is, the lower market commitment is recommended by the transaction cost theory. This is because a higher uncertainty arises through lack of understanding of the operating methods. This lack of knowledge arises from the sociocultural distance between the countries, making it difficult to predict its operating environment. (Anderson & Gatignon, 1986) Therefore, Bestseller should consider entering the market through export, to gain an understanding of the country’s norms and the environment, before engaging further.

From the perspective of the Institutional theory, it is advisable to lower the degree of market commitment, when there is a large gap between the sociocultural factors in the home country and the new market. As the gap is high between Denmark and Brazil, Bestseller will have difficulty following the “rules of the game” in Brazil, as this culture is new to the company,
and they do not have any experience with similar cultures. Regarding the normative pillar, Bestseller can take advantage of collaborating with a local firm, to optimise its chances of matching with the local cultural values and social norms. (Scott, 1995). The exact entry mode is up to the firm to decide, but it is important that they enter the market together with an experienced partner, that knows how to act on the market.

The real option theory sees the vast difference in sociocultural factors as an opportunity to learn. Following the real option perspective, Bestseller lacks endogenous knowledge. If Bestseller enters with a high level of commitment, it will result in less flexibility, which will reduce the firm’s ability to take advantage of new information in the future. By entering the market in a collaborative manner with a partner firm, Bestseller will exploit its opportunity to learn and be able to increase its future commitment in a correct manner, most suitable to the specific market. At the same time, it reserves the right to retreat from the market, without tying up too many resources in the project. Therefore, the ROT also suggests a collaborative mode of entry.

Finally, the resource-based view has the same perspective as the other theories and suggests a market entry through a collaborative manner under such sociocultural factors. In general the main focus of the RBV theory is to exploit a firm’s own specific resources when entering foreign markets. It also looks at how the firm can transfer their specific knowledge into competitive advantages in the new markets (Meyer, Wright & Pruthi, 2009). Bestseller will have great difficulty ensuring a transfer of knowledge capabilities since the market analysis has revealed that there is a large sociocultural difference between Bestseller’s domestic market and Brazil. Therefore, the only way to achieve market knowledge from the initial phase will be through collaboration with a local partner.

5.1.6 Technological factors

At first glance, the technological factors are not readily important, as this thesis is concerned with Bestseller entering Brazil through physical stores. By entering the market through physical retail stores, the technological impact of the society may seem to be less important, as there is no significant connection between establishing a store and the technological environment. But as the interview with the Danish Trade Consul in Brazil highlights, for Bestseller to be successful on the Brazilian market, the technological factors should not be underestimated. The reason behind this statement can be found in the evolution of social
media. The Brazilians are very active on social media with an estimated 79 percent of the Brazilian Internet users also registered on social networks such as Instagram and Facebook. Therefore, it is extremely important for Bestseller to incorporate a solid social media strategy before launching on the Brazilian market because social media is a fast and relatively cheap way to connect with their target audience. Further, the Danish General Consul has stressed that to win the Brazilian customers; it is necessary to secure endorsements from Brazilian celebrities. An incredibly effective way of communicating this to its target group will be through technology such as online banners, affiliate marketing and the use of social media. Bestseller has already done a collaboration with Brazilian supermodel Gisele Büdchen, for their brand Vera Moda. So Bestseller already has great marketing potential for that brand in Brazil.

The technological factors are not included in the entry mode theory analysis, as the theories are not specific about how such technological factors impact the firm’s entry mode. On the other hand, the technological factors will be an absolute priority to exploit from a marketing perspective to succeed.

**5.1.7 Environmental Factors**

The environmental factors are as earlier mentioned the least relevant factors in the PESTEL analysis, as Bestseller’s products do not impact negatively upon the environment in Brazil. Environmental factors such as deforestation and pollution in major Brazilian cities do not affect the chosen theories in the reflection on entry mode. Therefore, the environmental factors will be left out of this part of the analysis, as it does not majorly influence the entry mode choices for Bestseller.

**Summary of External factors:**

Through analysis of the external factors in Brazil, it is clear that there is a higher degree of uncertainty and volatility in the environment compared to the traditional western markets. High level of corruption and complicated employment laws are some of the factors that create challenges for firms operating in the country. But predicted steady growth in retail sales over the coming years, combined with a constant rising middle-class are positive factors, indicating that Brazil could be an attractive market of the future.

**5.2 Internal Factors:**

The following section will examine the internal factors to evaluate how they affect Bestseller.
5.2.1 Firm Size

As discussed previously, the size of a firm can be equated with the size of its resources, which often has a strong connection to a firm’s financial capability. As Bestseller’s annual reports demonstrate a sound financial foundation, the financial capabilities, will not be an obstacle for the company. Further, Bestseller has entered several other markets, through various entry modes, which implies that economic capabilities are such that the company can enter the market as it pleases. There is no reason to believe that this factor should create any barriers for Bestseller.

The entry mode theories, in general, all agree that when resources are sizeable, the company can enter through a hierarchal mode, due to the connection between size and capacity. Such modes provide the company with the opportunity to maximize profits. However, company size is not the single determining factor, as it is dependent on the external factors such as market conditions.

5.2.2 International experience:

A firm’s international experience can play an important role when deciding how to enter a new market. Companies with a vast array of international experience will be better placed to expand internationally with a high commitment, while firms with low international experience, may benefit from collaboration with partners with broader experience. With nearly 10,000 stores worldwide, Bestseller is the largest fashion chain in the world, and there is no doubt that the firm’s international experience is at the highest possible level.

Seen from a transaction cost perspective, vast international experience should make the firm enter the market with a high commitment, as previous experience reduces internal uncertainty. As Bestseller is the world’s largest chain of clothing stores, it has gained broad experience from its previous activities. Anderson and Gatignon (1986) argue that such international experience gives the company improved competencies, as it can draw on its past experiences. As such, the company will not need to collaborate with external firms, to achieve success in the new market. The transaction cost theory also views uncertainty as a source of transaction cost that should be handled by increasing the level of control. In Brazil’s case, uncertainty will naturally be high, as the company does not have previous experience with any Latin-American cultures.

Following the real option theory, the broad international experience will help reduce endogenous uncertainty, as the firm has gained experience through previous experience. However, due to the fact that Brazil is a completely new market, where Bestseller has no
similar experience, the firm is better off benefitting from the present uncertainty by entering the market through a lower market commitment approach, such as collaboration with a local partner, as it will increase its flexibility to react to future market information. Therefore retaining the option to either grow or to abandon the investment. (Li, 2007)

The resource-based view focuses on the transferability of the firm’s resources. If the firm has strong transferable resources obtained through previous international experience, it will choose a high level of commitment, as it will not be dependent on the knowledge of external partners (Madhok, 1997).

By contrast, when the firm enters a market in which it has no similar experience, as it is the case with Brazil, it is advisable to enter through a collaborative entry mode, as that will provide the firm with the highest possible competitive advantage in an unfamiliar market, and they can benefit from a partner’s local knowledge.

Finally, the Institutional theory suggests following the cognitive pillar, to consider previous international experience in other markets when entering a new market. Bestseller has used a broad range of different entry modes in other emerging markets, such as WOS in China, Franchise in India and Joint Venture in Russia. Therefore, the institutional theory does not give any clear hint as to how Bestseller should aim for entry into Brazil.

5.2.3 Product complexity

Product complexity plays an important role when the firm needs to make a decision on entering a new market. As mentioned earlier, product complexity is closely related to asset specificity, assessing whether the product is specially customized for the Brazilian market, or the firm’s existing products can be distributed on the market. An assessment as to whether the product is poorly or well understood by its potential customers should also be undertaken.

The level of maturity of the product is another important factor to take into consideration, as a partnership can create opportunism when it is possible to replicate internal knowledge and R&D.

Bestseller’s products are well understood by its customers, as they sell traditional fashion clothes, without any special attributes. The product is transferable, meaning that they can distribute their clothing in Brazil, as well as in India or indeed any other place of their choosing. Like other clothing brands, the firm has developed a collection that is distributed throughout their network, and they don’t have to produce a specific product line for the Brazilian market. However, there are certain items, which should be avoided in certain parts
of Brazil, such as warm winter coats, that may sell well in Denmark or Russia, but in parts of Brazil where the winter has an average temperature of 25 degrees Celsius, those products should naturally be omitted.

If Bestseller chose to follow the transaction cost theory, then they should be able to lower their degree of control when entering Brazil. The potential for opportunism is relatively low, due to the fact that the market is well-developed and, as a result, specific knowledge cannot be copied and exploited in the same way that it might otherwise have done. The TCT and the ROT both view these products as a great opportunity for collaboration, especially as the asset specificity is low.

5.2.4 The firm’s characteristics

The firm’s characteristics play a significant role in the decision-making process when entering a market. For example, if Bestseller had only entered previous markets through WOS, the arrow would naturally be pointing towards them entering the Brazilian market through a WOS. In Bestseller’s case, the firm has used several different entry modes depending on which country it is entering. So when looking at Brazil, the obvious strategy would be to run a comparison on all of the other modes of entry to see how they have performed in other emerging markets. When doing this, it is important to separate China as it is half-owned by a third party firm, and, therefore, driven in an untraditional way, compared to the rest of the markets. In China, Bestseller has exercised the WOS entry mode while other emerging markets such as Russia and India have been entered through franchise modes in collaboration with local firms.

In Bestseller’s case, the arrow points towards a collaborative entry mode where the firm enters the markets together with a business with sound local knowledge.

Summary of Internal factors:
The internal factor analysis demonstrates that Bestseller’s assets are large. The company has gained a lot of international experience from previous market entries, and this is likely to be a profitable asset when entering a new market. On the other hand, it should be considered that Brazil is a part of the Latin American culture, which Bestseller has no former experience with. Therefore, it is most likely that the firm will encounter problems, as they have no previous experience with the culture. While the firm has shown that in the past, it has been able to enter markets with foreign cultures with great success.
### Overview of the various theories

<table>
<thead>
<tr>
<th>EXTERNAL FACTORS</th>
<th>BRAZIL</th>
<th>TCT</th>
<th>IT</th>
<th>RBV</th>
<th>ROT</th>
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<td>Collaborate</td>
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<tr>
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<td>Lower commitment</td>
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<td>Political Factors</td>
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<td>Collaborate</td>
<td>N/A</td>
<td>Lower commitment</td>
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<td>Collaborate</td>
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<td>Technological factors</td>
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<table>
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<th>INTERNAL FACTORS</th>
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<th>TCT</th>
<th>IT</th>
<th>RBV</th>
<th>ROT</th>
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<td>International Experience</td>
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<td>Increase control</td>
<td>Increase control</td>
<td>Increase control</td>
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Source: Own production

### 5.3 Bestseller’s mode of entry

After evaluating the various factors throughout the thesis, it is possible to begin to frame an entry fashion suggestion from the information gathered. This will be achieved by discussing the findings from the analysis in Chapter 8, in light of the literature that was presented and discussed in Chapter 5. To further broaden the horizon before determining a final entry mode suggestion, the two interviews will be summarized in the following section. By summarizing the interviews in this way, it is the author's intention to bring additional knowledge to the discussion, which will hopefully shed light on the situation from several different aspects.
5.3.1 Interviews

By including the attitude of the interviewees towards the entry mode, an opportunity to obtain aspects that are not solely based on the analyzed theories arises. This will help elevate the thesis beyond only the theoretical aspect.

**Interview with Andrés Contreras, Bestseller – Head of expansion in Latin America**

Mr Contreras revealed that Bestseller opened a sales office in Uruguay in 2015, and plans to open point of sales in Chile, Colombia, Peru, México, El Salvador, Guatemala, Nicaragua, Costa Rica, Panamá, Honduras in the near future.

Mr. Contreras sees Brazil as an extraordinary market with a very large population, in which consumers love the smart and casual brands. But at the same time, there are high barriers to entry that make it difficult to import goods into the country. His primary concerns regarding the country are high taxes, bureaucracy, and elevated operational costs.

As Bestseller wishes to expand into Brazil as soon as possible, they are currently working on growing their e-commerce business into Brazil, as part of their strategy of becoming a global e-commerce firm.

In the interview, Mr. Contreras mentioned the issue of the different climates in the regions, which can impact significantly on their value chain and logistics if the firm chooses to expand nationwide.

Mr. Contreras believes that Bestseller has lots of brands and options to offer that will excite Brazilian consumers. Concerning the entry mode, Mr. Contreras explained that Bestseller will bring a broad range of their premium brands into the region.

He also stated that the preliminary plan is to start by exporting their products to Brazil, to initiate a learning process. In such a process, the partner imports the goods and handles all administration and bureaucracy. Therefore, in principle they will focus on a wholesale business. The second step will be a franchise business where the partner will also import the goods and will establish the local company.

**Interview with Eva Bisgaard Pedersen - Consul General at Consulate General of Denmark, São Paulo**

Mrs. Bisgaard Pedersen explained in her interview that one of the most significant challenges she sees regarding the case of Bestseller in Brazil is the cultural differences. As styles vary all over the country, due to the large demographical differences, it will be a great challenge to supply appropriate styles to the whole of Brazil. While styling will be a challenge, it is
advantageous that many of the existing Brazilian brands are not of a very high quality or variety.

When asked about the high taxes and operational costs, she pointed out that many foreign firms complain that it is expensive to do business in Brazil. But it is important to remember that most of the same taxes and duties are also applicable to local Brazilian businesses. As an example many Brazilian fashion companies also produce their clothes in countries like China, and, therefore, also have to import the goods. Most of the Brazilian firms that produce their clothes locally still import the fabrics.

It is important to remain aware of Brazil’s significant barrier to entry. However, at the same time the market is large and the opportunities for long-term development is good. It has a large middle-class segment that will be able to afford Bestseller’s products, in a market where there is lack of supply on well-designed clothing.

Regarding the choice of entry mode, Mrs Bisgaard Pedersen suggests that Bestseller seeks inspiration from another Danish brand with high levels of success in Brazil. Pandora A/S sells middle-class jewellery and is active in more than 55 countries, and has more than 10,000 resellers worldwide.

Pandora A/S has used an entry mode model, where they combine strategically placed wholly owned stores with franchise partnerships. The strategically important locations such as the premium shopping malls and main shopping streets in the major cities are kept wholly owned by Pandora, to retain full control over the appearance of their flagship stores. Meanwhile, they subcontract all other shops out for franchise. In that way, they ensure full control of the most important shops, while their franchise model provides them with the opportunity to expand rapidly in the rest of Brazil. This involves a lower level of control in the franchised based stores, which as a possible downside can result in lack of perfection of style in the franchise based shops. Crucially, it is a way for Pandora A/S to rapidly gain market shares in Brazil, without investing heavy capital in stores all over Brazil.

Further, Mrs. Bisgaard Pedersen adds that to stand a chance in Brazil, social media is a crucial factor. A company like Bestseller would need to be associated with celebrities on social media, where TV personalities pose with their brands. That is a good way to get into the market, and it is an easy channel to communicate to it´s potential customers, as most of them are active on social media. Therefore, Bestseller needs to invest heavily in channels like Instagram and Facebook to brand itself most effectively.

An extended summary of the two interviews can be found in the appendix.
5.3.2 Entry mode recommendations:

Bestseller has not yet officially decided when they wish to enter Brazil, but as previously discussed the firm has concrete plans to enter into several other Latin American countries within the coming years. The first step has already been taking, by setting up a sales office in Uruguay, to serve as the main base for the South American operation.

As explained in the interview with Andrés Contreras, Bestseller has decided to postpone the entry into Brazil, due to the complicated conditions associated with entering the country. But as both interviews with the Bestseller-representative and the Danish consul suggests, the Brazilian market has enormous potential for Bestseller if entered using an appropriate entry mode.

External and internal factors have both been analyzed in this thesis. The analysis revealed some variation on the recommended entry mode, depending on how the different entry mode theories interpreted the factors.

All four entry modes predicted that Bestseller’s internal processes were geared to enter the market through a high commitment. By contrast, the external factors reflected various proposals on the potential mode of entry, depending on the theory, which is illustrated in the table above.

From the analysis, it is clear that there are many views on the best way to enter Brazil. The theories offer different views on several factors, but when the factors are combined, it shows that entry mode that has the broadest consensus is a **collaborative mode**. The South American Bestseller representative suggests **export** and The Danish Consul suggest a combination between **WOS and franchise**.

In terms of collaboration, it is important to note that this term can cover different entry modes. In literature, there is often a focus on the joint venture, but it can also cover collaboration though franchise.

This causes a contradictory result, proving that it is not always most logical for a business to follow the entry mode theories, which is proven by Bestsellers intentions to enter the market through export mode.

To provide the best possible entry mode solution, it would have been an advantage to understand Bestseller’s exact long-term plans for Brazil. To understand how serious the firm
is when market conditions could be a determining factor. However, this information is not available at the moment.

The plan to export into Brazil as Mr. Contreras mentioned, is not without its pros and cons: Seen from the theoretical point of view Chapter 4 demonstrated that export can be an effective way to gain market experience about the product performance in a market, without being directly involved. This gives the company the opportunity to observe the market before committing large resources into the market. (Root, 1994).

The downside of this entry mode is that Bestseller will have close to no control over their products, which might damage the brand in the initial phase, due to the lack of opportunity to protect the brand. If Bestseller’s brands are incorrectly priced or located in stores next to unfashionable brands, it can create a perception of the brand, which in the future will be difficult to change.

Seen from the transaction cost theory this brand perception will be as an ex-post transaction cost, where the firm has associated costs if the other party does not comply with the agreed terms. (Hollensen 2011)

The theoretical findings in this thesis show that Bestseller should use a collaborative entry mode, when entering the Brazilian market. When the external uncertainty is relatively high, as in the case of Brazil, according to the TCT firms should avoid full ownerships in volatile markets, but instead shift the risk to outsiders. This naturally implies ex-ante costs, as opportunism is a cornerstone of the TCT framework, where cooperating with external partners to sell the product creates some opportunistic risk and will generate costs of monitoring the partner.

Madhok (1997) explains regarding the RBV that a firm’s motivation when entering a new market is to exploit a transferable competitive advantage or develop new advantages that can provide the firm with long-term profit. Further he divides the entry mode within the RBV into two stages, where the company is in possession of the necessary knowledge and competitive advantage to operate solely on the market. Or, that the company is not in possession of these advantages, and should thus choose to collaborate. The latter stage is relevant to Bestseller in Brazil.

Regarding the IT, the cogitative dimension supports a collaborative manner as this part of the IT framework is focused on previous entry mode. In other emerging markets such as India, Bestseller runs a franchise agreement with one single partner, Bombay Rayon Fashion, who manages all franchise stores in the country.
The normative pillar also supports the argument by stating that when adaption into a new market is estimated to be tedious, it should choose collaboration to mitigate the process. (Sternquist & Huang, 2007). Finally, the strongest of the three pillars, the regulative dimension also supports collaboration, as it states when inducement governance implies a risky situation for the firm, it will favour lower control modes with a restricted level of resource commitment (Ibid).

Seen from the ROT perspective, a market with a great deal of uncertainty present is too risky. As such, a business should aim to find an entry mode that supports both the option of growth in order to exploit market opportunities while simultaneously giving the business the opportunity to abandon the market, if its product proves to be a failure on the market. (Li, 2007) Within these requirements fits a collaborative manner, as it provides the firm with both options.

In Brazil, the market potential is large, as revealed in Chapter 1. The retail clothing industry in Brazil has grown by 45% in real value over the last five years. In 2013, total sales of clothing in Brazil amounted to R$ 82.5 Billion and this is expected to grow at a steady rate over the coming years. Therefore, it is important to start developing market knowledge from the initial phase which can in the future be transformed into a competitive advantage for Bestseller.

It is advisable to build the collaboration upon a franchise agreement, as seen from an economic perspective, the franchising concept can be an effective way of expanding rapidly while still limiting capital investment, as franchising involves a local partner who will absorb part of the risk and contribute time, manpower and experience to the project. Franchising allows flexibility in the global expansion process where the firm gets its brand represented in the market, while still keeping a reasonable degree of control, as they still are in charge of many aspects of the representative image, which is consistent with the theories philosophy. To reduce transaction costs, it is recommended to sign a multiple-unit franchisee agreement with one business to enable them to develop their franchise network, instead of having individual franchise agreements on each store. This helps decrease both ex-ante and ex-post costs (Barringer, et al. 2010). By entering through the franchise, a synergy between theory and practice is created, as it combines the recommendations on creating a collaborative entry mode and Bestseller’s plan to export. By franchising, the firm will export to its franchise partner while simultaneously keeping a degree of brand reputation as their products are sold through concept stores designed by the firm itself. By franchising, Bestseller can further
draw upon previous experience in other emerging markets, where they have also employed the franchise strategy.

Further assumptions, which can be made, are that Bestseller can potentially consider following Mrs. Bisgaard Pedersen’s advice and ensure full ownership through WOS in a number of strategically important flagship stores. This will ensure full control and will ensure that these strategically important stores are consistent with the message that Bestseller wants to communicate. Bestseller should consider setting up WOS in the most strategic important points in the following cities, Rio de Janeiro, Brasilia and São Paulo.

6. Conclusion

The focus of this study was to gain a better understanding of the concept of internationalization and to demonstrate how internal and external factors may influence Bestseller’s decision to enter Brazil seen through a theoretical perspective. A combination of four well-known entry mode theories was analyzed with the aim of providing Bestseller with an in-depth analysis that is directly applicable when deciding on the optimal time to enter the Brazilian market.

The thesis contributes to the entry mode literature by providing a comparable overall analysis of the four entry modes. This allows for an easy overview as to how the entry mode theories differ in terms of the specific factors.

There are numerous factors that can influence a company’s potential entry mode. Due to space limitations, the paper has been limited in the scope to just ten factors. All ten factors are deemed to have a significant impact on the company when choosing an appropriate entry mode for a prominent fashion retailer into the Brazilian market.

The results will hopefully help managers be aware of the importance of using multiple theories when deciding on an entry mode, and to view the analysis from multiple perspectives.

It is the hope of the author that these findings may help shed some light on the Brazilian market. Through its analysis, the thesis illuminates the many challenges and opportunities that currently exist in the Brazilian market for a fashion retailer.

The first chapter in this thesis broadly introduced the topic of research and outlined the research gap and the research objective, further it provided details both about Brazil as a market and about Bestseller as a company. The second chapter considered the methodology applied to this study. The thesis then continued in chapter three by reviewing the relevant
literature and created the foundation for the development of the thesis’ theoretical framework. After that follows the fourth chapter, which presents internal and external factors that have been selected for this thesis. A review of the factors aimed to provide an empirical foundation that can help lead the thesis to a detailed entry mode analysis.

The fifth chapter analyzed the collected empirical data and offered clarification as to how the different factors could impact upon Bestseller in Brazil.

The sixth chapter discussed the findings in light of existing literature, which helped create the foundation for the final entry mode recommendations for Bestseller.

Finally, the aim of this chapter is to summarize the thesis and highlight the key findings, which includes ensuring that the research questions from chapter one are answered. Further, this chapter discusses the limitations and briefly touches upon future research recommendations within the field.

6.1 Key Findings:

The theoretical framework of the study sought to combine the current literature for four developed entry mode theories for MNE’s. To be able to answer the research objective chapter X and X developed a framework that described and analyzed possible entry mode opportunities in combination with a review of the theories. As well as the factors influencing the business as seen from an internal perspective and an external country-specific perspective.

As presented in chapter one, the first research question is as following:

- How do the external and internal environmental factors affect Bestseller in Brazil?

The findings show that there are several factors that Bestseller needs to be highly aware of, when entering the Brazilian market. For example, the large socio-cultural differences are something that Bestseller needs to take into account because such vast differences may cause major problems if not adapted to from the opening phase. The findings also show that power distance, uncertainty avoidance, individualism and masculinity factors are largely different between Bestseller’s home country Denmark, and Brazil. This affects the company decision-making process. If you are doing a joint venture or WOS where staff are employed, then it is imperative that you are fully aware of these conditions, as
they impact upon the way the staff needs to be managed. If you are to create the right environment for productive, happy staff.

Another example of important factors that this analysis has revealed is Bestseller’s need for a finalized strategy for social media, such as Instagram and Facebook. The analysis reveals that 79 percent of the Brazilian Internet users are registered on social networks, and more than 65 million people are active on Facebook. This does not directly affect the entry mode, but it does affect the way the firm should look at its marketing initiatives, to reach its target group. Finally, the governmental and economic factors analysis shed light over important aspects as well, such as detailed information about import procedures, that Bestseller needs to be ready to handle. It also illustrates how additional taxes will force Bestseller to raise its prices in Brazil.

The second research questions were concerned with how the firm should enter the Brazilian market.

The research question were as follows:

- *Which entry mode should Bestseller choose when entering Brazil, based on the chosen entry mode theories?*

In terms of the above research question, the findings indicated that Bestseller should engage in a collaborative manner. Furthermore, it was found that among the different collaboration opportunities, Bestseller should choose a franchise agreement. This choice is based on the theory applied in the thesis, where it was found that the cognitive pillar argued that previous entry modes should be repeated, as Bestseller already had broad experience with entering through franchise solutions.

From the interview with Mr. Contreras, it was further revealed that Bestseller intended to embrace the franchise concept after an initial trial time on the market. From a theoretical analysis, it was clear that collaboration had the broadest consensus. However, the thesis found that the Danish Consul Mrs. Bisgaard Pedersen and Managing Director Bestseller Latin America, Mr. Contreras both hold different views as to how the initial entry mode in Brazil should be conducted. Mr. Contreras suggested export and The Danish Consul suggest a combination between WOS and franchise. This indicates that even though theories agree on how to enter the market, it does not mean that a firm will automatically implement the suggestions.
7 Limitations and future research

As the subject area of this thesis covers more aspects than it is possible to elaborate on, an exhaustive description of all aspects is outside the remit of this thesis. Therefore, it has been necessary to set some limits for this thesis, due to limited resources and space. The final section will briefly sum up a number of limitations for this thesis and ideas for improvements that could be addressed in future studies.

Case study:
An alternative perspective on the analysis would be to create a comparison between Bestseller and a Danish firm that has already cracked the Brazilian market. An analysis of the choices that led to their success could then be undertaken. Pandora A/S which is presently expanding widely in Brazil is a perfect example of this.

Another interesting approach would be to compare all Danish companies in Brazil. This would provide an understanding as to how companies internationalize and assess whether there is a trend in the data that suggests that some methods are more effective than others in generating success in the Brazilian market. Due to capacity and space limitations in this thesis, these approaches were not applied.

Analysis of Bestseller:
The in-depth analysis of Bestseller is be supported by a number of external sources, as well as information obtained from the company's own website. To create a more accurate analysis of the internal factors, Bestseller officials would have been interviewed. The company has been approached concerning this but failed to set a meeting with a Bestseller representative to discuss this topic. Bestseller did, however, participate in an interview regarding their internationalization in Latin America which was very helpful.

Target group interviews:
It would have been interesting to conduct interviews with people in Bestseller’s target group in Brazil, to get their views on how they perceive Bestseller and the style of their clothes. This would have provided opportunities to expand the research objective further, by looking at ways in which it would be most suitable for brands to introduce their products to the Brazilian market.
Resource limitations made this impossible, as it would have required a physical trip to Brazil to interview their target group. Further, for such investigation to be statistically significant, it would require a large number of interviews, which would be extremely time-consuming.

**Omission of relevant theories:**
Some potentially influential factors may be lost, as the theories utilized in the thesis do not cover those factors. An example of one such theory is the Network Theory, the Uppsala Model, is another. By expanding the range of internationalization theories, it would have been possible to get an even more accurate understanding of how different internationalization theories have different views. As an example, the chosen theories in this thesis did not support Bestseller’s expansion plan by using export, but there is a possibility that other entry mode theories would have supported this.

**Limitation of influential factors:**
This analysis has drawn upon a range of internal and external factors that may have an effect on Bestseller as it expands into the Brazilian market. However, it is important to be aware that there are likely to be other factors that will influence the method of entry that is not covered by this thesis. In a thesis in which additional resources were available, it would be interesting to analyze a broader spectrum of factors to get a complete insight into what may influence the business.
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APPENDIX

Interview with Andrés Contreas, Bestseller – Head of expansion Latin America

Due to Mr. Contreas wish to answer the interview questions through e-mail, this interview were performed by sending Mr. Contreas an e-mail with the selected questions, after which he answered all the questions and sent his answers back via e-mail.

Q1: How do you see your expansion in Latin America? Have you identified any countries for expanding Bestsellers activities?

Answer:

Expansion in Latin America is a fact. We are developing our brands and opening point of sales in Chile, Colombia, Peru, México, El Salvador, Guatemala, Nicaragua, Costa Rica, Panamá, Honduras and Uruguay.

Q2: How do you see Brazil as a country to expand your business? – What are the opportunities and obstacles seen from the perspective of Bestseller?

Answer:

Brazil is an extraordinary country with a very large population. Consumers love the smart and casual brands. But at the same time, there are high barriers of entry that makes difficult to import goods in the country.

Regarding the obstacles that we might find are: high taxes, bureaucracy and elevated operational costs.

In order to expand our business, we are already working with e-commerce there. I believe that BESTSELLER has lots of brands and options to offer in order to satisfy the needs of the consumers.

Q3: What factors have gone into your strategic planning for Brazil?

Answer:

Pricing strategy is one of the most important factors to consider. Taxes increase goods up to 65 %. Therefore, every category must be studied to see if the price is competitive in the market.
Also it is important to consider the different climates in the region. In the north, there are not seasons, as there are high temperatures the whole year. This has an impact in our value chain and logistics.

Q4: If entering Brazil, do you have predetermined preferences on how to enter the market? – What do you think would be your mode of entry? Should it be Direct export, Franchising, a Joint Venture or a Wholly Owned Subsidiary?

Answer:

To export will be the first step. It is the safest way to introduce Bestseller’s brands. By this, the partner imports the goods and is responsible for all administration and bureaucracy. Therefore, in principle we will focus on a wholesale business. A second step will be a franchise business which the partner will also import the goods and will establish the local company.

Q5: Do you have predetermined a strategic social media marketing strategy? The Danish General Consul emphasized in my interview, that in order to get success in the Brazilian market, a broad presence on medias such as Facebook and Instagram is necessary, together with having the brand associated with Brazilian celebrities.

Answer:

Yes, we have a predetermined strategy as we agree that social media are very important in Brazil. Brazilians are connected to mobile devices all the time, especially the young consumers who are our brands’ main target. For this reason, our clients will do a strong focus on Twitter, Facebook and Instagram.

Q6: Do you have any specific brands you will concentrate on in Latin America, and in particular in Brazil? The Danish General Consul predicted in my interview with her, that the style of Bestseller could be the biggest obstacle in Brazil, as the actual target group may be very narrow.

Answer:

We brought to Latin America our most important brands such as Jack & Jones, Only & Vero Moda. But we also brought brands like Selected, Name It and Only & Sons in order to offer more options. We are talking about millions of people in this region. There is a lot to be covered and BESTSELLER has everything to get that done.

Regarding Brazil, men’s options are limited. For that reason, we believe that a brand like Jack & Jones can be very important in a market like theirs.
Interview with Eva Bisgaard Pedersen - Consul General at Consulate General of Denmark, São Paulo

The interview with Eva Bisgaard Pedersen were performed though skype. The interview has been conducted by using a semi-structured approach.

The answers in this interview are summarized as a resume. The entire interview is attached as an audio file.

1)

From a general perspective, what are the industries in Brazil that are attracting most foreign direct investment at the moment from the outside world? Are there any specific industries that receive a lot of attention?

Answer:

Brazil is experiencing a negative growth in 2015. Growth is forecasted to be 0,9 percentage in 2016, which still is a low growth rate. The current “crisis” is essentially a crisis created due to people's lack of trust in government. A large number of corruption scandals have occurred. Among these is the largest corruption scandal in the history of Brazil, called ”Lava-Jato”, which can be translated into ”Car Wash” — the scandal involves the state-owned oil company, Petrobras and its partners. It is a multi-billion dollar money laundering and bribery corruption scandal, which has lead to several arrests.

This had also lead to the first negative annual report from Petrobras in more than 20 years.

At the same time the worlds commodity prices are low, which affects Brazil strongly, as the country is heavily dependent on its exports of commodities.

The factors behind growth in the zeros, was a consumer-driven growth. This growth is now weak due to the explained lack of trust to the government. But I expect that the growth will return within some years.

It is especially the commodity industries that are the most hyped topic in Brazil, as the country receives such a high percentage of its income from the sector.
2)

**In your opinion, what are the biggest obstacles for Danish companies, when entering Brazil?**

*Answer:*

Regarding the case of Bestseller, one of the biggest obstacles are the cultural differences. As styles vary all over the country, due to the large demographical differences, it will be a great challenge to supply fitting styles to all of Brazil. As an example the north eastern part of the country, has an entire different demographic population, compared to the south. This also means that the fashion styles are largely different. What sells in the south, won’t be guaranteed to also be able to sell in the northeast.

While the styles can be a challenge, it may be an advantage that many of the Brazilian brands are not of very high quality or variation. Therefore there is certainty a market for the products of Bestseller, but they will have to consider their strategy carefully. Instead of looking at all of Brazil as a market, they may have to focus on certain metropolises instead.

3)

**How do you see Brazils policy towards foreign investments in general? Do you believe that the Brazilian attitude against foreign direct investment and export into Brazil is liberal or protective?**

*Answer:*

In general Brazil is an expensive country to do business in, due to its many taxes and duties.

Many firms complain that it is expensive for foreign firms to do business in Brazil. But it is important to remember that most of the same taxes and duties are also applicable to local companies. As an example many Brazilian fashion companies do also produce their clothes in countries like China, and do therefore also have to import the goods. And most of the Brazilian firms that produces their clothes locally, do still import the fabrics.

Therefore it is important to take into consideration that Brazilian firms also are subject to many of the same challenges as a foreign company will face.
In general the import taxes are high, which easily make cost increase with over 60%.

There is a 33 percent import tariff on clothing, while the average import tariff in Brazil is 18 percent.

It is important to conclude that Brazil has a large enter barrier with a lot of bureaucracy and import taxes. But at the same time the market is large and the opportunities for development good. It has a large middleclass segment that will be able to afford the products of Bestseller, in a market where there are lack of supply on well designed clothing.

4)

**Do you have any recommendations to how a Danish clothes company could enter the Brazilian market? After your experience with the Brazilian market, would you recommend entering the Brazilian market through Direct export, Franchising, a Joint Venture or a Wholly Owned Subsidiary?**

*Answer:*

Bestseller first has to get its strategy straight. They need to figure out to where they will export, down to the level of which harbour they will use. The supply chain is important to establish.

Further they have to figure our where they want locate themselves on a geographical level. To me it seems most obvious to place themselves in large metroploles such as Rio de Janeiro, Sao Paulo and Belo Horizonte.

Regarding their internationalization mode, a good example is Pandora. They are expanding heavily in Brazil at the moment, opening stores all around the country.

They have expanded through a model where they keep all strategic important stores wholly owned, so that they have full control over its appearance. Those strategic important places are the high end shopping streets, expensive malls and other places where the appearance of the stores are absolute top priority.

Meanwhile they use a franchise model for every other store in the country, in order to be able to expand rapidly and without too large costs. They are investing heavily in marketing and branding in order to make the brand well known and make it attractive to franchise takers to invest in. But using this strategy, Pandora has managed to open
more than 100 shops in Brazil in only a few years. This seems to me like a good strategy, that I think Bestseller may be able to adopt with success.

5)

**How do you see the Brazilian retail market developing? From your personal perspective, do you think that Brazil is a market to focus on for a company like Bestseller, or do you think the “Brazil cost” will be too large?**

**Answer:**

I see Brazil as an interesting market for Bestseller. But it is very important to do a fulfilling market analysis in order to figure out if the target group is present in Brazil. Other countries like Chile and Argentina are more fascinated by the European style of clothing, so those countries are also possible alternatives, even though its population is much smaller than Brazil.

But as the range of fashion clothing in Brazil is limited, and the clothing prices in general are high in Brazil, there will possibly be a great chance to offer “affordable luxury” to the B segment of the Brazilian population.

If Bestseller should focus on a country like Brazil, I see social media as a determining factor for success. In Brazil social media are a critical factors in order to enter a market with success. A company like Bestseller would need to be associated with celebrities on social media, where TV personalities pose with the their brands. That is a good way to get into the market, as it is a easy channel to communicate to it´s potential customers, as most of them are active on social media. Therefore Bestseller needs to invest heavily in channels like Instagram and Facebook.

**Note:** The entire interview of 33.11 minutes can be found on the USB.