



## **Pinto Basto, Trying to Succeed in the Angolan Market**

A case on internationalization in emerging markets

**Rita Vieira Mendes Coelho Silveira**

Advisors:

Professor João Borges de Assunção

Paulo Alexandre Gonçalves Marcos

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### **Abstract**

The logistic industry is an important sector for the well development of a country. Nowadays, due to the crescent globalization, it is getting a preponderant role. The companies operating in the sector are pressured by demanding clients and an increasing flow of goods. It is not only difficult to keep up with the whole scenario of a changing industry but it gets harder when a SME has to internationalize to a strategic and complex country.

Pinto Basto (PB) is one example operating in that industry and struggling with all the difficulties that SME have. Moreover, the company decided at some point to expand to Angola, a Portuguese speaking country. This internationalization could seem easy and clean as the cultures are not that different, but along the way, the company dealt with serious difficulties in the market. After all, Angola is an under developed country and there is still a lack of stability for SME's to prosper.

Mr. Carvalho-Neto is called into the company with the objective of turnaround the increasing losses that the Angolan subsidiary was having. The complexities of the market lead the new executive director to make a strategic decision of the way that the company should heading. Integrated logistic services were the answer to some of the problems. He came up with two solutions to enter that new business that they needed to implement in order to integrate the services. The board would surely agree with the most traditional and risk averse, a local partnership. However, Mr. Carvalho-Neto was pushing to a more bolt and risky idea, the creation of a new company. Pinto Basto was depending on the decision and, due to the particularities of African markets, either one could lead to a fatal destiny for the company.

This is a case about a SME operating in a very complex African market, were decisions would have a determinant impact in the survival of the company.

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## **Introduction**

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The objective of the case study is to provide instructors a tool to lecture topics of external and internal analysis and, on the other hand, highlight the frame of entry in an emerging market such as Angola.

As the case is around a real company it is a very practical case that will allow readers understand the struggle of a SME in a complex market while industrial marketing and strategy topics are addressed.

Students are expected to have practical knowledge by applying concepts, such as *Break Even Point*, general business strategies frameworks and industrial marketing.

Lecturers are expected to conduct the class discussion and prepare the topics that the case study will approach. It is supposed that they encourage class discussion and guide the students to reach a conclusion for each question in order to optimize the presented case study.

## **Case Study | Pinto Basto, Trying to Succeed in the Angolan Market**

Two days had passed from the job offer, and Mr. Carvalho-Neto was struggling with the decision, his background was commercial marketing, and there he was, being challenge to a pure industrial marketing company something that he was not used to and in an underdeveloped country with many problems arising. But one morning he was reading the newspaper, as usual, and suddenly he came across an article about Angola and the next upcoming years. **(Exhibit 1)** “Well, well” he said. The perspectives were good, the government was finally trying to change the scenario with programs to fight unemployment and support other industries than the core; the education system is being re-design to imprint the necessary quality that was lacking; manufacturing, retail and construction were now seen as attractive, but he immediately though in transportation and logistics. International companies were now trusting the economy and investing due to financing and incentive programs designed or supported by the government **(Exhibit 2)**; joining the good outlook he had already done his homework about the market and the company. Set there, his ambitious mind-set simply decided “I need to try!”, he thought.

September 2009, there he was, in his new Angolan house, standing with his luggage and sat in a chair in the dining room. It was a mixed feeling, he was glad and proud of himself but he was consumed by the injection of information that he had to process in the next few days. It was not only the performance of the company itself, he would have also to understand the individualities of an industrial services company. Everything was different from a commercial service company. He knew that the board choice was based on his solid technical knowledge and he wanted to prove them right.

After sometime breaking down all the information regarding the company, Mr. Carvalho-Neto was worried. He started to see some main flaws on the Angolan company, some huge setbacks for the business. At midnight, he was still at the office conference room - that was now a messy room with a huge circular table full of papers and information from his extensive analysis. He was perplexed - “How is this possible,

even in a developing country, how?”. The fact was that since 2004 the company was facing losses of 3 to 4 million EUR due to the loss and theft of containers; containers that simply disappeared. “A container is an enormous metal box, people should have noticed that this is happening”, he thought. And he was right about his guess, this was the setback that the whole industry was feeling in Angola, no one understood how and when but in fact they disappeared.

He found the Achilles' heel- and it was also a matter of image. The financials were low, the company was underperforming but now he knew that it was the clients and consumers that just did not trust the brand; this was a vicious cycle – loss of merchandise, costs to the firm, bad reputation, less clients.

The pressure was on; he was the third executive director assigned by the company to the position, in an attempt to solve the problem. He woke up the next morning thinking, exactly, about the last two men that had sat in his chair - “I cannot be just one more, this is different, I am sure that they just look at the numbers and not at the big picture.”

On the next day, in a rush, Mr. Carvalho-Neto asked for a conference call with the CEO of the company back in Portugal. He had outlined something. After presenting his discoveries to the board, Mr. Carvalho-Neto just said “We need to implement a door-to-door service, we cannot risk to lose more containers”. He thought that with this strategy he would turn the company less volatile to this problem, ensure that the containers would be delivered and the brand image would be improved. But then a fundamental enquiry arrived by the mouth of the CEO “OK, you are right about the problem! You are saying that we need to upgrade our service, and transport the containers by land from the logistic ground to the final destination of the client. But how do you think that you can implement this door-to-door system? We have tried before to work with local truckers and it is what it is... More losses!”.

Mr. Carvalho-Neto was sure that this was the perfect opportunity for PB Angola to strike and implement the “door-to-door” strategy. After the meeting he set back and

closed his eyes in that conference room, he had ideas to implement this new strategy, but he was dwelling with which was the best solution to the company, and how was he going to present this to the board considering their reluctance regarding his new overall idea of what should be the strategy of PB in Angola.

### **Where is Pinto Basto playing?**

The Angolan logistic market is today in outright growth accounting 4.4% of the GDP in 2011. The economy is still subdued by the Oil & Gas sector, which represents 75% of the GDP, even though 85% of the Angolan labor force works in Agriculture sector, representing a modest 10% of GDP. Although the tendency is this labor force to change to non-primary sectors and get superior education, the country has still a high deficiency in human resources qualification.

With a population around 20 million and a growing disposable income, the logistic industry in Angola is in the priority strategies of the domestic and foreign players. It is reasonable to assume that the market is underpinned by several macro and socio economic factors that boost the demand and create a large opportunity in a market considered the economic power of sub-saharian Africa. **(Exhibit 5)** Angola is a young country, 43% of the population is under 15, and in a post war period the population is starting to recognize the power of the foreign brands and the consumer trends are shifting, becoming more demanding. Moreover the PER Capita Income increased significantly comparing with the past years. The last direct factor that has an extreme influence in this sector is the index of urbanization, it is estimated that 60% of the Angolans live in the urban area; well in a large country as Angola, it is decisive that the population is more concentrated for logistic and distribution purposes.

The competitors in the sector tried, successfully, to keep up with the market and, today, it is impressive the amount of modern infrastructures and high-technology equipment that the players invest in. The comparison is clear; although there are still significant problems, Angola is gaining a hallucinating rhythm in terms of process development – which is surprising in a developing country.

But logistic does not work with the individual consumers, since they are only the final destination. While Angola is not yet able to manufacture several types of products, all the local companies have at some point to import raw materials or any other kind of product to use in their business. On the other hand, Angola exports to other markets due to the crescent quality of the national products. **(Exhibit 3)** Surprisingly, in 2011 China was the country from which Angola imports more, being now the second largest oil exporter to China, right behind Saudi Arabia. **(Exhibit 4)**

The infrastructures and plants of the different sectors that import or export are by tendency outside the urban centers, and sometimes, in the interior of the country. So while the individual consumer is near the biggest distribution centers, companies are outside these boundaries and this has a huge impact on the logistic traffic and organization.

As the flow of imports and exports increase, Angola has 5 maritime ports that are the main engine of this stream: Luanda, Lobito, Soyo, Namibe and Cabinda. But the ports of Luanda, Lobito and Cabinda handle around 95% of the total of shipments. The Luanda Port has around 3000 of wharf, 19 storehouses and is based on an area of 713 000 m<sup>2</sup> and it is one of Africa best natural ports. The Lobito Port has been target of some significant investments for a operational improvements. Nowadays the port has 1221 meters of wharf distributed in an L that allow long haul and large shipments to stay in. It is relevant to enhance that the Cabinda Port is an interdependent company along with Railways of Benguela, and the mesh of lines of the second is connected to the infrastructures of the port allowing the transportation of the containers. The Cabinda Port, in the north of the country, has limitations regarding large shipments although it is the support of the oil business in the north of the country.

However, the operators are struggling; the delays in loading and unloading, customs clearance and cargo transportation make them exhausted. In addition to this problem, arises the common situation of containers loss. Both these problems have huge implications to the firms, and although it is an appealing industry, firms are very

exposed to this high risk and can easily enter in losses not because of their management but due to this type of “out of control” situations.

In the past years there has been some initiatives to overcome these complications, the one with most impact was the concession of 8 terminals that had contributed to improvement in the waiting time from 4,4 to 2,7 days. Despite this positive change, the concessions have been complaining due to the high costs.

The railway system operates with three government companies, *Caminhos-de-Ferro de Luanda*, *Caminhos-de-Ferro de Benguela* and *Caminhos-de-Ferro de Lobito*. The whole system needs a significant investment on the requalification; consequence of a long lasting non utilization and ravages of war. Long sections of the railways cannot be utilized due to the destroyed bridges and mines left by the war ended in 2002. It is necessary technical assistance to the requalification of the railways and there is no qualified labor. Essential equipment for the good operation of the railway is missing. The infrastructure itself is weak and outdated, a normal train cannot go along the existing railways. In the past two years, the government has been reformulating the railways with some investments, nevertheless, they need qualified workers that the country cannot provide yet. The companies are in negative fields concerning revenues minus costs. Recently the government appointed the merger, and perhaps privatization, of these three companies as a way out to develop the railway with more efficiency.

In April 2002 the Angolan Government approved an emergency program to the repairmen and reconstruction of the roadways and railways. The rehabilitation of the road infrastructures were assumed as top priority due to the precise extent to which enhances the circulation of goods and people, curtailed for three decades by a political-military conflict that additionally worsened the condition of the main roads circulation of the country.

In the beginning of the year of Mr. Carvalho-Neto decision, over 4 500 kilometers of roads were asphalted, cleaned and drained to ensure its functionality and durability. Traffic density in Angola is still low and is concentrated in Luanda, where is expected

to increase exponentially - the regional concentration of traffic is also reflected in the consumption of diesel and petrol. On average, two-thirds of total demand was sold in Luanda area. However, the inter-province traffic is likely to grow rapidly.

The difficulties created by the whole infrastructures in transportation can be beneficial, in a way that the establish players already know how to deal with this situation and the new competitors do not have this *know-how*, or it can be really prejudicial in terms of use of resources – financial and others.

Angola is not yet prepared, regarding capacity or quality, to reduce the imports. It is reasonable to assume that the demand of the consumer and the (still) incapability of the country to produce will generate more logistic traffic. The transportation sector is ahead with the challenge of the reactivation of the entire business environment essential to the functioning of the country, even with the need to give the industry the necessary equipment and technical staff.

### **“Our company in a complex market”**

And there they were, looking back at the beginning of the company, being sure that their experience will prevail over the complex market. Since 1771 Pinto Basto specialized itself in the import-export activities, starting at the city of Oporto and moving later the headquarters to Lisbon. Mr. Carvalho-Neto said to his new Angolan employee “ Funny thing, in 1815 we were the ones that won the contract to import tobacco, the second most imported product in Portugal at that time, I want to be that important here in Angola”.

Today, Pinto Basto is a leader in the domestic market, and from Lisbon it started to create an extensive group that is now worldwide established and an important player in the Angolan market since 2002. The diversification has been fundamental to the business. The company, says Mr. Carvalho-Neto “ is committed to introduce pioneer solutions and respond to its clients in real time”.

PB operates in four related areas that create synergies among them allowing the satisfaction of the client. **(Exhibit 6)** Logistics is a big part of PB, this part of transport and cargo management acts in Portugal, Spain, China and Angola. They integrate Sea, Air and Road transports to ensure that the clients have their needs satisfied according to their criteria's. In line with the logistic side of the company, the Shipping Agency is a relevant part to the operationalization of the service; they range from bulk cargo cruise liners ships to logistic and container ships. Working between the Iberian Peninsula to Angola, PB represents the largest ship owner worldwide. The Liner Services that Pinto Basto offers is also relevant to the overall scenario: it includes containers and conventional cargo, Roll-On and Roll-Off Cargo. It is done by representation, and in Angola, PB uses the big Mediterranean Shipping Company. But lately, the company has been feeling the need to enter some other activities that will boost the capacity of delivering service, namely, PB has participations in financial services and security industry.

The internationalization of the company has been a priority, especially in markets that PB forecasts the potential for growth in the logistic area. Although PB is strong in Portugal, Spain and China, Angola is still the most relevant market generating 65% of the company revenues.

The proximity of culture and language boosted the management decision of expansion to Africa. **(Exhibit 7)**. However, other than the straight relation with Portugal and the perspectives to logistics and transportation sector, PB also looked to the strong economic outlook, large variety of natural and unexplored resources, the willingness of the government to look to other industries than Oil & Gas and Diamonds Industry, Angola recent international and regional partners and growing investment. "Did you know that your country is ranked in 16<sup>th</sup> in potential of Agriculture by ONU, but is only using 3% of the resources?!" said Mr. Carvalho-Neto when reading some facts to Fernando, "And the 7<sup>th</sup> producer of diamonds in the world when it just represents 0.8% of the GDP. Oh, and hear this one: Angola has capacity can double his fish capture! Incredible."

On the other hand, Mr. Carvalho-Neto was aware of the problems in the market. The excess of bureaucracy was killing many businesses. The companies were loaded with it and delayed development since the beginning of the company operational needs: imports, labor, sovereignty and ownerships. Furthermore, the market was not seen as transparent, many interests were flowing, difficulting businesses exclusively constituted by foreign capital. “The financial system is still deficient” he said. The economy was not developed enough to credit concessions. Furthermore, the Angolan business culture does not see the deadlines as a value to respect, starting on public companies. Currency circulation restrictions and difficulty in access to credit also worsen the problem of failure in commitments.

**“Let me explain who is who”**

Lunch time again, the only relaxing time in a busy day. There he was, being friendly to his new Angolan employee; he took over that relaxing time to teach him the business, to integrate him in the team. But after a while talking he said “But Mr. Carvalho-Neto, I am starting to get confused, I heard you talking about companies that I do not know!”. “Let me explain who is who” said Mr. Carvalho-Neto **(Exhibit 8)**. Pinto Basto is in Angola from the early post-war period, so it had to face fierce competitors that entered the market with the same strategy as them, and even competitors that had established in the market before PB, with *know-how* and specially the right connections and clients. But this did not discourage PB, for them the market was so strategic to let it go due to strong competitors.

“SDV, Fernando, did you heard me talking about SDV?”. SDV, is one of the main competitors of PB, a French company that competes in multimodal transportation, logistics, and supply chain management. Today, SDV is in 99 countries, 4 continents and it is part of an international logistic operator, group Bolloré. SDV maintains the position as leader in Africa as 43% of their business is based there **(Exhibit 9)**. The Angolan subsidiary of SDV and direct competition of PB Angola is SDV AMI Angola **(Exhibit 10)**. The company entered the Angolan market in 1931 by the Lobito Port. It is the expedition agent, for example, of Otal, Delmas, Setramar, United States Navy and

Royal Britain Navy, meaning powerful clients and a huge capacity in Angola. “They are focus and have a powerful financial background to keep up with the market. For them the drivers are clear - more market share in an emerging and strategic country.” he explained.

Then Mr. Carvalho-Neto, mentioned Panalpina. It is a company that started in 1895, its main boom was in the 80’s and 90’s when it started the air and sea operations between India, Far East, Europe, Oceania, South Africa, USA and Brazil. At that time, being the pioneer in the emerging Far Eastern markets made them a strong company. “China was the real deal, they manage to enter and conquer.” said Mr. Carvalho-Neto. In the same year Panalpina started a wave of acquisitions: they took over the Scottish firm Grampian International and bought the South Korea-based International Aero-Sea Forwarders. This was huge, not only the company reinforced their positioning in Asia, an emerging and crucial market for logistics where everyone wants to be, but they also consolidated their leadership in the logistic industry of gas and oil. The acquisitions went on, and the company is now one of the biggest in the world, with 7 billion in revenue in 2012 (**Exhibit 11**), and as a consequence one of the biggest in Angola. “This is a giant!”, he said. For 26 years in Angola, Panalpina has a strong strategy of reinforcing their positioning with tactical partnerships in the government and with transportation companies, focusing on Oil & Gas, the *El-Dorado* of Angola.

But NDS, was also relevant in Mr. Carvalho-Neto mind. NDS has served its customers' shipping interests for over a quarter of a century. And now is taking an important place in the Angolan market.

It was also important for the executive director to consider indirect competitors. He pointed them as all the companies that provide same or similar services in the country. Due to the destruction in infrastructures caused by the long war and the insecurity of road and shipping transportation, aero transportation gained a crescent importance. “We cannot estimate the relation between aero transport and maritime but still, TAAG has a significant role in cargo transportation” he said to Fernando.

The market is demanding (**Exhibit 12**), the main competitors were presented to Fernando. “The bar is way too high” he thought. But that is why PB is determined to conquer it; although the competition is seen like unreachable they want to step up to them. The margins are high and the macro-economic scenario is now boosting, being the perfect incubator for successful companies – potential clients for PB Angola.

### **New partners**

The focus of the road logistic in Angola is very diversified; it goes from *one-man show* where the owner uses a small truck to transport the goods; to a strong company with a large fleet capable to do long distances transportations.

In Mr. Carvalho-Neto head, he had two options so far; work with individual owners of trucks or do a partnership with a company that has a large fleet and a name on the market. He started to puzzle all the pros and cons in his mind. After a while things were aligned and the *one-man show* option was on disadvantage. “Too risky” he said. This option would imply more control over each trucker, resulting in a much harder organization and the need to integrate more staff so they can track all the containers along the transportation. “And I have the same problem, what will assure me that the owner do not disappear with the container that has more value than what I pay him?!”. He knew that he had an associate risk of losing containers and he had to put more human resources to get things done the right way, although the costs of transportation service per se are much lower than in a partnership with a company established in the market.

“But I do not have that many options for partnerships” he thought. It is common to have partners that do the road transportation of the containers, and for sure it is safest than use a *one-man show*. A partnership could bring a safest approach to the problem of the loss of containers, the company will have reputation and if something happens they would be responsible for the financial losses that a missing container represents.

“This will be costly, but let’s look at the main problems: loss of containers that is destroying our reputation and causing financial losses due to the responsibilities that we have to assume.” he said to Fernando. The new employee was astute “We are shield in a partnership. We have someone’s image to “blame”, we do not need to assume the financial costs because they are in the possess of the container at the time of the eventual loss and further more we have additional services to present our clients.”.

The idea of Mr. Carvalho-Neto did not rely on the outsource of services, as Fernando was firstly thinking, he wanted something bigger than that. “A partnership is the way to go in this industry. We have all the maritime services around the world, essentially from Europe, and we could find someone that also wants to complement their service” he said. The strategy was to do a cross-selling of services, the truck company would sell maritime transportation for their clients and provide a more complete service and Pinto Basto would also provide a “door-to-door” service by integrating the road transportation on their offer portfolio.

After this conversation, they both start looking at companies that they could target to do the partnership. In the first step of the research, Fernando aligned all the players in the road transportation industry, the list was short – after all the sector of road transportation was still very raw in Angola. But there was something that reduced the list even more, Mr. Carvalho-Neto wanted to bet on a company that was owned by Angolan people, they were left with Unicargas and Abamat. **(Exhibit 13)** Although the cargo transportation multinational companies are just now giving the first steps in Angola, this was not the main reason. He knew that working with someone local would give the company a strong competitive advantage. “They are prepared for these kinds of situations. It is less likely that domestic companies are stolen” he said “In this way we avoid the *one-man-show* situation and we can still transfer the main benefit of this practice – the local company label- to a partnership”.

But then, they went back to the same dilemma. Although, in a big company the cargo is more secure, they were still talking about an underdevelopment country, were the

operations are not as organized as in developed countries due to a variety of causes namely, lack of infrastructures, social and cultural differences among others. “It is much more reliable, but it could also be transformed in a difficult situation if somehow the partners are not as professionals that we need them to be.” said Mr. Carvalho-Neto.

### **The complementary company**

That same afternoon the executive director was excited to define this new chapter for the company. After talking about partnerships, Mr. Carvalho-Neto decided that he need to have one more option to present the board, this one he was really cautious about but it was so exciting that he had to explore it. It was really ambitious and probably a long shot with the board.

Indeed the alternative plan was risky, found a new company from scratch in a country where there is a lack of infrastructures and so many differences in social-cultural terms, was not an easy task. “There are so many questions to ask!” said Mr. Carvalho-Neto “But, although a long time ago, we already started something here so it is possible to do it again successfully Fernando”. In fact, it was a challenge but the executive director believed in this new project.

Because every high risk comes with a higher return, Mr. Carvalho-Neto grabbed a piece of paper and started to think about the pros and cons of the new idea. It was really appealing what was coming of that piece of paper. This was a new business, also in logistics and transportation, but with a truck company PB group could not only use it as internal resource to complement their services and improve all the downsides that they were struggling with; but also they could sell that service to other companies and have profit from it. “This company would not be used only internally, we would do this a business that we could sell also to our competition, at least we are earning profits from them and diversifying our risk” he said.

When thinking about partners in the road transportation sector they concluded that there were few players and a crescent need of dynamization. This was mainly due to the special fear of the condition of the roads across the country as liability in this sector. But things were getting better, the government had been investing in improvement and construction of all the road system across the country. **(Exhibit 14)** From the road system situation can arise more risk, but on the other hand they could engage with the advantage of seeking the opportunity and build a reputation when it is not an attractive industry for investors. After all Angola, as a developing country, will need more and more road transportation of cargo. “We could enter early time in this industry and when the market starts to consolidate we are already well positioned” he said.

This was all true, but as a new company in a raw industry, PB group would have costs to build and operate this company. “The initial investment is going to be high” said Mr. Carvalho-Neto promptly. It was not like in the partnership, with diminutive initial costs. In this scenario Mr. Carvalho-Neto started to think about all the costs and defined that they would build a business plan to present the board. He knew that they would be tending for the partnership, and as he wanted to present two scenarios, this was the only way that the board would listen further this idea. He wanted to give them an indicative number to associate to the pros and cons list that he made earlier.

As he started the business plan that day he decided to name the project. The name would have to be catchy, on an initial phase to capture the attention of the board, and later, who knows, to capture the attention of the costumers. “It has to be something related to Africa because, as Angola is a coast country, in the future many of the goods entering by the Angolan ports could be for the neighbor countries.” he thought. And so it was, plain and simple, like **Africargo**.

Back to the business plan, he enumerates the costs that he would have for the initial investment. The list was long and things like vehicles, office, warehouse, workshop, car assistance were in it. For the initial investment he estimated 20 trucks at 100 000 €/each. He knew that he could get an amortization period of 60 months with a 12%

corporate spread. Afterwards he started to look to fixed and variable costs. **(Exhibit 15)**

He knew that he would need to charge approximately 350€ per TEU (Twenty-foot Equivalent Unit is a standard measure to quantify the volume of a cargo container) and he would have an average of 1.5 TEU per job.

With a simple math Mr. Carvalho-Neto reached a significant value for the project investment. He knew that this would be hard to defend but the list had more pros than cons at this point.

### **The beginning of the solution – costumers**

Now, it was clear to Fernando that the market had potential and they could face the competitors. But one thing was missing on the thought of implementing the idea – the costumers. Mr. Carvalho-Neto would have to explain his new employee who are they going to sell the services in order for him to understand why is he pushing so much to implement the “door-to-door” system. “This is straightforward Fernando, the clients for this extra service are the same clients that we have on the maritime transportation as this is a complement to ensure our performance. And, in case that the top management go along with Africargo and we see potential profit in selling excess capacity outside the company, our clients would be competitor companies” he said. In other words, Mr. Carvalho-Neto had one target, the clients of their own company, and as extension the other logistic companies that do not have road cargo transportation.

The fixed costs could be diluted by the sale of excess capacity and the cost structure would become more efficient. They could improve brand reputation, monitor the competitors and influence market prices with no investment by selling the excess capacity. On the other hand, Mr Carvalho-Neto pointed Fernando the set-backs from this surplus sale “We would add more suppliers to the market and increase full-service providers. We would have to increase human resources to manage the external clients’ portfolio. This could lead to a cannibalization of PB.”

After a brief explanation to Fernando of what will happen they both started to brainstorm about their B2B company. Obviously they knew that the type of clients were more complex in decision making, the result of the decision would have a higher impact that if they were targeting individuals, so they had to be more sensitive in the approach of the clients and, although they had already a huge base of clients that trust them in Pinto Basto Angola maritime transportation, they would have to extend it. Because the nature of the client, it is critical to identify his needs as he is a rational and complex consumer that will choose the supplier of the transportation service very carefully; after all they cannot have losses on the service and loss of merchandise. Moreover, in B2B the target is much smaller than in individual consumer businesses. On the other hand, the majority of PB clients are long-term buyers and prize the relationship with the supplying company.

“These types of clients are not segmented as individual consumers.” said Mr. Carvalho-Neto. He had made his own segmentation of the industry (**Exhibit 16**), and he knew that the best way to segment them was by the size of the company. This way he could look at each company and see which of them would fit in the future of PB. It was logical for him that the bigger the company the more merchandise it would eventually need to transport.

These clients are only reachable by industrial marketing. Mr. Carvalho-Neto started to apply all the things that he learned about this subject in the past, and he suddenly remembered some ground principles “The market is reduced and it is characterized by the experience of the company. The product or service is more complex and has to be adjusted according to each client, and the purchase is always based in rational decisions and not psychological as in commercial marketing, so we have to have a strong sales team.” he thought. The channels are direct with few or none intermediaries. But the core relies on the promotion and pricing, as Mr. Carvalho-Neto knew. Promotion is extremely important as a tool of the sales team to gain trust and customer loyalty, while in pricing there is margin for negotiation and competitive bidding.

### **While thinking at night**

That night Mr.Carvalho-Neto stopped to rethink both strategies that he had outlined so far. So many questions arise that day. Would his board be willing to hear both scenarios? Would he be able to turnaround the company? Was he being too ambitious? Will the board pick the right option? This was a huge responsibility for the new executive director, he could change the way of the company or things could go really bad. He did not wanted his new board to be disappointed.

## Teaching Note

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*Rita Mendes Coelho Silveira wrote this Teaching Note under the supervision of Professor João Borges de Assunção and Paulo Marcos as a dissertation submitted in partial fulfillment of requirements for the degree of MSc in Business Administration, at the Universidade Católica Portuguesa, February 2014. This case is based on real events. However the data and history of it are disguised as the main purpose is to illustrate a management decision.*

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*This case has one additional supplement in Excel format:*

*- Question 5 Instructor support.xls contains the calculation of question 5. It will help the teachers to explain students how does the BEP is computed and the steps used to answer the question. This excel file should only be used in class to show students a possible resolution of the problem and should never be hand out to the students.*

*This case can be supplemented with the following readings:*

*- Aharoni, Y., 1966. The Foreign Investment Decision Process. Third Edition: Division of Research, Graduate School of Business Administration, Harvard*

*University*

- Dolan, Robert, 1998. Note on Low-Tech Marketing Math, Graduate School of Business Administration, Harvard University*
- Corey, E. Raymond. Industrial Marketing: Cases and Concepts. Fourth Edition*

## Synopsis

Pinto Basto Angola is one of the reference players in the Angolan market. Their proximity to culture and language allowed them to rapidly penetrate the industry. They stand out for the shipping transportation from all around the world but

especially from Portugal and China, two of the top import/export relations with Angola. Unfortunately, due to the change in client demands and complexity of the market, their logistic service in Angola no longer represents growth in Pinto Basto Group. On the other hand, due to a boosting economy, the level of imports and exports are increasing exponentially and, consequently, so is the cargo transportation. Nevertheless, Pinto Basto Angola is getting negative results and the objectives of progress are not being achieved. The company is deteriorating market share and the sustainability of the company can be in jeopardy.

Mr. Carvalho-Neto, the new executive director of the company, is in charge of turning around the situation and understand the reasons of the huge losses that the Angolan subsidiary is having. The case depicts the sequential process that Mr. Carvalho-Neto had to go through in order to reach to the appropriate turnaround solution. He will mark the steps to the final solution of the problem by analyzing the country and the industry in a complex market; the company, as it is a new company for him; the competitors; understanding the clients; and considering the two way outs that he sees as options for the company.

### **Suggested Assignment Questions**

#### Market Analysis

1. Analyze the reason for PB to enter in a market as Angola.
2. What are the main difficulties in the Angolan market?

#### Consumer Profile

3. How did Mr. Carvalho-Neto describe the target consumer? According to the general manager, which is the segment that the clients of PB best fit and why?

#### Competitors Analysis

4. What is the competitive structure of the market where Pinto Basto Angola is in?

#### Entry Modes

5. Evaluate the two scenarios that Mr. Carvalho-Neto thought about? What are the risks and potential benefits?

#### Business Strategies

6. If the top management of the group decided to go ahead with Africargo, what would be the pros and cons of selling excess capacity?

#### Industrial Marketing

7. How can you characterize Industrial Marketing according to the case study?

### **Teaching Objectives**

This case is built upon the following teaching objectives:

1. To have students acquire a good comprehension about the so talked Angolan market.
2. To highlight the difficulties about the Angolan market.
3. To have students acquire knowledge of the transportation and logistics market.
4. To show the importance of strong client relationship in economies where the performance is associated with many external factors.
5. To help enlighten the decision making process in business diversification.
6. To have students explore what are the key factors to defining an entry strategy in a new industry.
7. To make clear the consumer profile in B2B businesses.
8. To have students acquire knowledge and understanding of industrial marketing and its characteristics.
9. To enlighten students the importance of a deep analysis prior to new business strategies.
10. To clarify the importance of a solid market analysis, including the deep understanding of the difficulties, on a strategic decision.
11. To show the main differences of industrial marketing and how it is characterized.

## **Use of the Case**

This teaching case might be used to the study and comprehension of business strategies issues, internationalization in management courses exploring International Business and Strategic Management as well as exploring Industrial Marketing in marketing courses.

The assignment questions should be used to generate discussion between students and introduce subjects such as market analysis, consumer profile, competitors analysis, entry modes, business strategies and industrial marketing.

## **Analysis and Discussion**

The teaching case presents six discussion questions to be addresses. A timeline for a 90-minute class discussion is suggested below:

<b>Question 1</b>	Market Analysis	10 minutes
<b>Question 2</b>	Current Situation	10 minutes
<b>Question 3</b>	Consumer Profile	10 minutes
<b>Question 4</b>	Competitors Analysis	10 minutes
<b>Question 5</b>	Entry Modes	20 minutes
<b>Question 6</b>	Business Strategy	15 minutes
<b>Question 7</b>	Industrial Marketing	15 minutes

The following discussion is purposed:

**Question 1.** Analyze the reason for PB to enter in a market as Angola.

*10 minutes*

For PB, Angola is currently the most important market of money generation. It is absolutely surprising how a country like Angola, after a war, started to recover so naturally with a strong economic perspective. The company first approaches Angola due to the proximity of language and culture, but so many other factors have contributed for the internationalization of Pinto Basto. Angola was a country in recovery with a wide expansion of the oil and diamond sector that were the main drivers for the richness of the territory. Nonetheless other natural resources were also very attractive from the perspective of an external investor. As a large country in Africa, Angola benefits from the coast that serves the needs of a potentially healthy economy. Bearing this in mind, the government started to diversify the business opportunities and de-focus on oil & gas and diamonds putting more effort on other industries. Pinto Basto saw that opportunity to invest in a developing country and today is picking the awards of the effort.

The importance of Angola for external companies, especially Portuguese countries, is growing at a considerable rhythm. It is reasonable to assume that what makes Angola an important country for possible investment, namely Pinto Basto, are a set of synergetic drivers:

- Economic Situation and Perspectives (**Exhibit 5**)

Angola is particularly sensitive country for the long war that striked the country and saw the finishing in the recent 2002. However it is impressive to see that Angola has been assuming the place of the economic power in the sub-saharian Africa. The natural resources, with highlight for the oil, are rich. Agriculture is an important coefficient for the labor force occupying 85% of this class, for a modest 10% of contribution to GDP.

During a 5 year period until 2008 the growing rate of the country was on average around 14.8% and Angola was one of strongest world countries in the world. But a downturn in the economic industry, originated by the world economic crash in 2008, made a dint on the oil sector pushing the average rate of growth until today to 2.5% . The important oil & gas sector now in recovery is expected to grow to 2.23 million of barrils/day (mbd) until 2017, more 0.48 mbd that 2012 production, which will propel the GDP in the forthcoming years.

It is expected that the sectors that will have a major economic contribution are the agriculture and agroindustry, turism, livestock, and beverages.

While employment is still a sensitive area, to boost the work force of the country, the government designed anti-unemployment programs that will comprise activities like agriculture, livestock, construction and industrial products. It is expectable that this programs will help the unemployment rate to reduce significantly will a middle class emerges.

Angola is the 16th country with high agriculture potencial, according to ONU, but only 3% of that arable land is in use. On the other hand, livestock is under capacity with only half of the resources in use. In mining sector, while the extraction of diamonds represents 0.8% of the GDP, Angola is the 7th producer of this product in the world and the country has still reserves of gold, copper and noble stones.

- Increase of Exports

The Angolan commercial balance presents positive results that have been increasing. As it is predictable, this situation represents the oil & gas exports that had increase significantly during the last years. However, this still gives prospects of an economy that is starting to use more external clients. **(Exhibit 3)**

As it was expected, in 2009 the exports declined abruptly mainly due the slow down on production and fall of the price per barril, as consequences of the economic crash in developed countries. However, in the past 3 years, the raise of the oil price and the growing production are increasing the exports side of the balance.

“According to International Trade Center, China is currently the country ranking first in Angolan exports. Angola is now the second largest oil exporter to China, right behind Saudi Arabia”.

Both China and USA assume an important role with around 59% of the exports and 42% of the oil production goes to China. **(Exhibit 4)**

In the imports, Portugal is the major player before China, USA, Brasil and South Africa. From 2010 to 2011, Portugal and China saw an increase on Angola exports. **(Exhibit 4)**

In 2011, the main product in exports was oil & gas as expected while regarding imports Angola has the need of basic machinery and mechanic equipment, ships and electronic equipment, showing the lack of production industry in Angola **(Exhibit 4)**

- Growing Investments

Between 2008 and 2012 Angola received 64.4 thousand millions of USD of foreign direct investment, according to The Economist Intelligence Unit **(Exhibit 2)**. More and more, it is seen a tendency of the companies to invest in this economy. Although Angola is likely seen as a receptor of investment, the recent economy of the country resulting on the crescent purchasing power of domestic companies and privates, made possible the verified increase since 2010 of the Angolan investment abroad. Moreover, the crescent opportunities of financing and incentives to new investments were decisive to their growth.

In 2012 there was an investment on non-oil products of more than one billion USD, and the manufacturing industry was leading the most attractive industries, followed by retail and construction.

Portugal, was the main investor, as a logic choice due to language and culture similarities. Preceding Portugal, foreign direct investments were made by USA, United Kingdom, Spain and South Africa.

- Straight Relations with Portugal

As the countries had a historical link along the time it was created a strong flow of commercial relations between the Portugal and Angola. While Portugal is the 4th country to where Portugal sells production and services, Angola saw Portugal climbing positions in the ranking of exports. In 2008, Angola was in 21nd as Portuguese supplier, and as Angolan economy saw an evolution, in 2012 Angola was positioned in 6th in Portuguese imports. In four years the African country managed to upgrade 15 positions making Portugal more dependent of the country. **(Exhibit 7)**

Historically, Portugal is always winning in the bilateral commercial balance. In 2012, the positive balance went to 1.2 billion EUR. Clearly, despite Angolan evolution, Portugal has an important role in the function of this economy while imports increase and the country still lacks a lot of basic goods.

As Portuguese speaking country and member of EU, Angola sees Portugal as an important ally for future business and development.

In 2012, Angola was the 4th in the ranking of Portuguese destinies for investment with a 3.48% of share. Between 2008 and 2012, the annual average Portuguese investment in Angola was 616.5 million EUR while the divestment was 794.3 million. Curiously, only in 2010 and 2011 the net investment was positive. Moreover, in 2012 the investment decline 65.6% relatively to the precious year. **(Exhibit 2)**

While the Portuguese investment in Angola is having a setback, Angolan investments in Portugal have had a positive evolution with an annual average investment of 61.5 million EUR.

**Question 2.** What are the main difficulties in the Angolan market?

*10 minutes*

*1 – Restriction to currency circulation*

In Angola, payments above a pre determinate amount can only be done with BNA authorization that can take several days. It is also common in commercial banks the

shortage of currencies to execute and order of foreign payment. Furthermore, the expatriation of profits is limited and under severe scrutiny. **(Page 13)**

### *2 – Low human resources qualification*

The country stands across a high rate of illiteracy and a low qualification of the labor force. On the other hand, the quality of the higher education is weak and the product of that education is a fragile graduated with low level of technical knowledge and sense of responsibility. That is why Mr. Carvalho-Neto was first hired, the country still relies on the expatriate work force and their solid technical knowledge. **(Page 6)**

### *3 – Excesses of burocracy*

Through the process of initiating and operating a company, the owners are heavily charged with burocracy that delays all the process and development. Problems are since the constitution of the company, to imports, to heavy labor laws that difficult to fire, to sovereignty and ownership of real estate. **(Page 13)**

### *4 –Lack of transparency*

As it is an undeveloped market it is expectable that the transparency in businesses is more neglected. Unfair competition is one common situation that occurs in this type of markets. Commonly, prospering businesses are somehow related to government figures. The Angolan market is still seen as not transparent and that is prejudicial for new businesses or foreign investment. **(Page 13)**

### *5 – Limitation in access to credit*

Due to the lack of maturity of the economy and financial system, credit concession is still very residual. This is justified, on one hand, with the existence of a financial market that promotes the applications to the central bank, and on the other hand, justified by difficulties in the evaluation of credit risks worsened by a difficulty in warranties execution. **(Page 13)**

### *6- Payment deadlines extended and irregulars*

The business culture in Angola did not institutionalize the fulfillment of payment deadlines as a corporate value to respect, as so the financial responsibilities are taken to the limit and wispy respected. One of the reasons concerns the fact that the Angolan government (and public companies) is the first entity to follow this policy. Moreover, the restriction to currency circulation and the difficulty to credit also represent an aggravating issue. **(Page 13)**

### *7 – Lack of supply in domestic market*

The primary and secondary sector, excluding Oil & Gas and Diamonds, are very incipient. As so, the domestic production can only satisfy a small part of the growing Angolan market. Furthermore, in the few situations where the internal market can supply itself the quality of the products are unsatisfactory and with a high cost. Consequently the dependence of the imports is considerably high (bullet 8) and the offer of products and services with a higher degree of innovation is reduced or inexistent. i.e. In automobile industry the automobile parts are imported one by one according to the necessities , as there is no stock the automobiles stay at the workshop for 2 or 3 weeks. **(Page 8)**

### *8 – Delays and difficulties in imports*

Given the necessity to rely on imports to ensure the supply of the domestic market, the flow of imports is too high for the Angolan Ports capacity where the traffic is mainly in Luanda. Moreover, the high rate of inefficiency of port operations and the excessive burocracy are also a reason for the recurrent delay. **(Page 8)**

Besides the maritime operations, the need for suppliers to cover the financial risks associated with Angola before making the steps associated with orders, compounded by difficulties in making payments to overseas, are also causes of delay in the performance of imports.

### 9- Deficiency of infrastructures

Due to a long war period and lack of maintenance of the transportation system, namely railways and roadways, Angola has a vast problem in the transportation of people and goods. On one hand, this affects demography, where there is higher tendency for concentration in the major cities and a deficit in the rest of the territory. On the other hand the poor circulation of goods difficult the flow of imports and exports and the supply of domestic companies. **(Page 8)**

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#### Main Difficulties in Angolan Market

- Unconvertibility of the Local Coin (Kwanza)
- High dependence on oil exportation
- Still disorganized economy
- Lack of quality companies in transportation of merchandise to the interior
- Judicial system push back companies
- Slowness of customs operations
- Absence of organized distribution networks
- High costs of establishment
- Lack of educated human resources
- High burocracy
- Difficulty of starting a business
- High taxes taxes
- Difficulty of credit
- Difficulty of trading across borders
- Resolving Insolvency

**Question 3.** How did Mr. Carvalho-Neto described the target audience? What is the segment that the customers of PB best fit and why?

*10 minutes*

Pinto Basto, as a service company, has as clients other businesses and that is why it is called in the case study a B2B concept, where clients are other companies. These other businesses that act as clients are not only the ones that are already using PB Angola, namely in maritime transportation, but also future clients of the potential partnership or the new company, Africargo. **(Page 19)** Bearing this in mind, Mr. Carvalho-Neto has

already his idea drawn in his head and he points out several factors that define the client of this industry and in particular in PB:

- *More complex decision-making:* The process of purchasing decision is far more difficult on companies than on individuals. We can assume that individuals have a much lower value and lower risk than companies that can jeopardize their future with a decision. Moreover, the decision of transportation of merchandise goes through a variety of approvals in the hierarchic chain, causing slowness in the final action of the purchase of the service or product. Occasionally, decisions have to rely on experts opinions adding one more step to the already complex decision; **(Page 19 and 20)**
- *More rationality:* Because of the implications of the risk of transporting merchandise to a developing country, the company has to be vigilant and more skeptical about their verdict. Furthermore, the slow passage through the hierarchic chain due to the sensitivity of the service provided allows the company to have several characters evaluating if it is the accurate decision; **(Page 19 and 20)**
- *More complex products:* In B2B businesses the selling company has to have in mind that the criteria of purchasing of a corporate buyer are very dissimilar that an individual buyer. While with an individual costumer it is likely that the company standardize more the product or service that they are selling, with a corporate client each service has to be adapted to the client, as in PB and the majority of the situations. This type client has demanding requirements putting the seller in a much more volatile situation in what concerns the automatization of the service or product. **(Page 19 and 20)**
- *Smaller target universe:* As it is expected in B2B, because the target are companies, it is reduced compared to the individual targeting. The fact is that these types of markets generally have fewer need-based segments. **(Page 19 and 20)**
- *Personal relations matter:* The B2B is building of their clients, and basically, these type of companies create straight relations with clients in order to appeal

to their reliability. As an example, we can see that the majority of B2B companies, such as PB, have a strong sales force that visit clients to create a robust bonding that influence the decision-making process. **(Page 19 and 20)**

- *Long-term buyers:* Due to the nature of the business it is likely that the buying company will re-use the services or products of PB if satisfied. It is common to see follow up services, aftersales service or repurchasing due to the recurrent needs of companies. Moreover, in line of the personal relation established, it is probable that the client prefer a company that has someone that they know inside that they trust. **(Page 19 and 20)**

Because of his experience, Mr. Carvalho-Neto already has an idea of what would be segmentation on B2B. He talks about four clear sectors **(Exhibit 16)** with different characteristics that he used to evaluate his clients:

- **Convenience:** Clients are defined by their practicality and easiness, choosing their supplier according to language, culture or geographical reference.
- **Behavior:** Clients that look at the product or service itself. This clients are classified by quality or/and price sensitive.
- **Firmographics:** These clients are defined by their size or type of business.
- **Needs:** These clients are defined by their sense of security and power.

And because of the nature of the business he understands that strategically it would be wiser to do a firmographic segmentation by using the size of the firm.

**Question 4.** What is the competitive structure of Pinto Basto Angola market?

*10 minutes*

In the logistics and transportation market, more precisely in shipping transportation, we can assume that the company is dueling

with direct and indirect competitors. The ones that Mr. Carvalho-Neto sees as direct competitors to his company are:

- SDV

- Panalpina
- NDS

These companies share the same characteristics and service that Pinto Basto and they act in the same target market.

In the logistic market, Pinto Basto Angola first direct competitor is SDV with a market share of 23%. **(Exhibit 12)** SDV saw a 15% increase of its market share regarding 2011. The company strong presence in Angola regards its dimension, the client portfolio and the also strong international presence that is a key success factor in the industry. **(Exhibit 8)**

The second competitor is Panalpina with 10% market share in 2012 and an increase of 11% comparing to 2011. **(Exhibit 12)** This company has a strong positioning due to the strategic partnerships in Angolan and international markets and the dimension of the company. **(Exhibit 8)**

Lastly, NDS also represents a significant role in Pinto Basto competitors with 6% market share and an increase of 20% compared to last year. **(Exhibit 12)** The company has a significant market presence due to the dimension in Angolan market and other international markets. **(Exhibit 8)**

However, it is reasonable to assume that all the other players in the logistic sector are competitors, with main focus to air transportation that has a crescent importance in a country where it is still a significant deficiency of land infrastructures. Due to the lack of maturity in the market it is not possible to estimate the relation between maritime and aero transportation, which represent the totality of the entrances in the African continent. **(Page 14)**

As so, in indirect competitors, we can underlie TAAG (Transportes Aéreos Angolanos) that has a predominant position in cargo transportation. This can be considered as a threat to Pinto Basto due to the security and fastness of the service. **(Page 14)**

A market with such characteristics can be defined as a concentrated market. Although it has still a small index of concentration, it is possible to see a tendency of growth of the reference players mainly due to the necessity of quality services and trust that the firms ensure in a complex market.

Summing up:

Market Share	2009	2010	2011	2012
SDV	17%	20%	20%	23%
<i>Growth Rate</i>	<i>n.a.</i>	17.6%	0.0%	15.0%
Panalpina	9%	9%	9%	10%
<i>Growth Rate</i>	<i>n.a.</i>	0.0%	0.0%	11.1%
NDS	5%	5%	5%	6%
<i>Growth Rate</i>	<i>n.a.</i>	0.0%	0.0%	20.0%
Pinto Basto Angola	3%	5%	5%	6%
<i>Growth Rate</i>	<i>n.a.</i>	66.7%	0.0%	20.0%
Outros	66%	61%	61%	55%
<i>Growth Rate</i>	<i>n.a.</i>	(7.6%)	0.0%	(9.8%)

**Question 5.** Evaluate the two scenarios that Mr. Carvalho-Neto thought about? What are the risks and potential benefits?

*20 minutes*

Facing the problem of containers loss, Mr. Carvalho-Neto and PB's board were aware that something must be done to solve the problem as the solution lies on door-to-door service. Drafting some possible ways to implement such an offer, they understood that two solutions were feasible: logistic trucks jobs in partnership regime or decided to go further and start up an in-house integration.

*Partnership option*

Regarding the first option, business rules were clear; PB could establish a partnership with one or two trucks operators to drain containers traffic that the company deals in Luanda. Under this option, financial gains were limited and not tangible, and only derived from the better services that PB will be willing to deliver. It is not possible by

the data provided by the executive director to do a financial evaluation of the scenario.  
**(Page 15 and 16)**

*Truck startup company option*

However, supported by its deep experience of Angolan market, PB also knew that moved into a vertical integration was a serious possibility, in which scale gains would be important to become competitive in the industry. **(Page 17 and 18)**

For Mr. Carvalho-Neto business assumptions were clear; PB must invest in a fleet of twenty trucks at an average price of 100 thousand EUR, with a short depreciation period of just five year, due to poor maintenance of Angolan roads, and support through a high yield leasing contract. Moreover, the startup company needed to hire 22 drivers and increase PB's office staff to support operational tasks. Nevertheless, despite the size of the initial investment, variable costs per truck job were reduced.

Computing all the previous assumptions, and assuming a 525 EUR average price per job that translate market prices' decreasing path, the break-even point (BEP) of the startup a truck company is approximately 1838 jobs a year.

That value represents a 42% utilization of installed capacity and 40.8% of PB's annual containers traffic (4.500 TEU's a year). Therefore, being aware that door-to-door service is an appealing offer to logistics clients, and if PB is able to implement an efficient truck operation, the exploration of commercial synergies could assure that BEP is achieved. Furthermore, behind than minimum number of truck job, the company has a large room to profit from other opportunities on a developing logistic market as Angola. **(Exhibit 15) (Page 17 and 18)**

**Question 6.** If Africargo was the management option, what would be the pros and cons of selling excess capacity?

*15 minutes*

Selling excess capacity is considered an option by Mr. Carvalho-Neto. Looking at the hypothesis that Africargo is the choice, the management has to decide whether to compete in the market or use the company for internal purposes only.

Mr. Carvalho-Neto mentions along the text several benefits that could outcome from the sale of the excess capacity installed.

First, he highlight that the sale of the capacity to external clients would dilute the fixed costs of Africargo and would turn the structure of costs more efficient due to the larger scale of the business. If Pinto Basto Angola assumes the management of the whole chain and provide that road service to others, they have an increased ability to optimize resources and boost operational efficiency as well as increase revenue levels.

**(Page 19)**

Mr. Carvalho-Neto also comments the brand recognition as a plus. The launch of Africargo as a subsidiary of PB Angola could turn this brand recognition in brand reputation, one of the key success factors in this industry in Angola. **(Page 19)**

The sale of Africargo's excess capacity is also seen by the management as a competitive advantage. If they sell excess capacity to other competitors they have the ability on one hand to monitor closer the competition operations and, on the other hand, they can have influence in prices due to scarcity of players in road transportation. **(Page 20)**

The generation of financial results without any investment and low risk is an important step to the hypothesis of selling excess capacity.

But Mr. Carvalho-Neto also alert for the negative outcome that could have this selling of excess capacity.

The main problem in this scenario is that it would improve the offer in the market and consequently would increase the competition in the full-service providing. On other words, the selling of excess capacity could cannibalize Pinto Basto Angola competitive business. **(Page 20)**

The executive director also highlights the necessity of other type of human resource structure if they decide to go ahead with this idea. After all, he would need more human resources to manage external clients, as for example sales team. **(Page 20)**

If Africargo choose to go with the sale of the excess capacity the decision should reflect the potential profits and the potential losses to the parent company. As so, marginal profits are the decision making factor. **(Page 20)**

Prós	Cons
<ul style="list-style-type: none"> <li>- Diluted fixed costs;</li> <li>- Cost structure more efficient;</li> <li>- Optimize resources and increase operational efficiency;</li> <li>- Increase profits;</li> <li>- Brand reputation;</li> <li>- Influence in external prices;</li> <li>- Monitoring of competitors;</li> <li>- Generation of results with low risk and no investment.</li> </ul>	<ul style="list-style-type: none"> <li>- More offer in the market;</li> <li>- Increase of full-service providers;</li> <li>- Cannibalization of the parent company;</li> <li>- More human resources to manage external client portfolio.</li> </ul>

**Question 7.** How can you characterize Industrial Marketing according to the case?

*15 minutes*

As Mr. Carvalho-Neto was considering the job offer, he knew that he was going to an unexplored dimension. As the time passed by, he enhanced several differences between consumer and industrial marketing:

- *Market*

In consumer market, there are a large number of potential buyers and mass markets to target. The flow of information of individual consumer is high turning the market more reachable. (i.e. demographic information). On the other hand, industrial marketing acts more by the experience of the company regarding the market. There is a significant lack of quantitative information that could characterize industrial market niches. Moreover, there are a reduced number of potential targets. **(Page 20)**

- *Service or product complexity*

As in consumer marketing companies are dueling with products or services that are standardized and do not have a significant technical complexity, in industrial marketing companies are ahead with customized and technical complex products/services. In PB case, Mr. Carvalho-Neto has a complex service that is adapted to each client. The marketing has to be adjusted to the complexity of the service, and each customer requires a special focus. **(Page 20)**

- *Industrial buyers*

In commercial marketing, there is a strong component of psychological influence to buyers. The individual is inexpert and passive as companies are active in promotion techniques. In industrial marketing, buying is based on rationality. The buyer is knowledgeable of the service and analyze financially and non-financially the purchase. As oppose in B2C, marketing in services industrial markets is triggered by a strong sales team of specialists that establish an interpersonal relationship between the two parties. **(Page 20)**

- *Channels*

Consumer marketing channels are based on indirect and few channels multi-layered. While industrial marketing channels are more direct, with less intermediaries, which act in multi channels. **(Page 21)**

- *Promotion*

As in consumer marketing promotion takes a highly important share of the sale, industrial marketing use as promotion the power of the personal selling, with specialist teams. The process of the sale is long and expensive for the firm as in oppose to consumer marketing were promotion and advertising is straightforward. **(Page 21)**

- *Pricing*

In consumer marketing, pricing is listed for the buyer. The decision can be influenced by it but the buyer is previously informed of the conditions. In industrial marketing products or services there is margin for price negotiation and competitive bidding. **(Page 21)**

The complexity of the industrial marketing strategies is correlated with the complexity of the services and products sold. Sales cycle, promotion and pricing are getting more and more specific to which situation. In PB, Mr. Carvalho-Neto is dueling with a services industrial marketing company and its strategy of verticalization has a high dependence on how he is going to make a marketing strategy.

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## Exhibits

### Exhibit 1 – Macroeconomic Data

	Units	2010 <sup>a</sup>	2011 <sup>a</sup>	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
Population	Millions	19,1	19,6	20,2	20,7	21,3	21,6
Gross GDP	10 <sup>2</sup> USD	82.470	104.360	123.258	145.378	169.378	198.091
GDP per capita	USD	4.320	5.320	6.110	7.020	7.970	9.070
GDP grow	%	3,4	4,0	8,0 <sup>a</sup>	8,3	5,9	5,9
Private spending	Var. %	5,5	7,8	9,8	9,0	6,3	4,0
Public spending	Var. %	7,5	12,2	8,6	8,0	5,0	5,0
FBCF	Var. %	0,5	13,0	12,0	8,0	7,0	7,0
Inflation rate	%	14,3	13,5	10,2	9,0	8,5	8,0
Public sector balance	% GDP	6,8	12,2	8,5	4,6	3,2	2,0
External debt	10 <sup>6</sup> USD	19.004	21.115	21.895	21.652	20.923	20.915
External debt	% GDP	23,0	20,2	17,8	14,9	12,3	10,6
Public debt	% GDP	23,4	22,2	20,5	18,5	15,5	12,9
Current account balance	10 <sup>6</sup> USD	7.421	15.916	14.792	10.845	9.323	9.181
Current account balance	% GDP	9,0	15,3	12,0	7,5	5,5	4,6
Average exchange rate	1USD=XAOA	91,91	93,93	95,43 <sup>a</sup>	95,45	94,33	92,67
Average exchange rate	1EUR=XAOA	121,94	130,73	122,68 <sup>a</sup>	125,04	120,51	114,68

Source: The Economic Intelligence Unit (E.I.U.)

Notes: (a) Effective values;

(b) Forecast;

AOA – Angolan Kwanza

### Exhibit 2 – Foreign Direct Investment

(10 <sup>6</sup> USD)	2008	2009	2010	2011 <sup>a</sup>	2012 <sup>a</sup>
Foreign Direct Investment in Angola	16.581	11.672	9.942	12.565	13.642
Foreign Direct Investment from Angola	1.570	8	1.163	1.250	1.850
World Ranking					
As a receptor	20 <sup>th</sup>	28 <sup>th</sup>	25 <sup>th</sup>	n.a.	n.a.
As an issuer	44 <sup>th</sup>	105 <sup>th</sup>	52 <sup>th</sup>	n.a.	n.a.

Source: The Economic Intelligence Unit (E.I.U.) and UNCTAD – World Investment Report 2012

Notes: (a) Forecast

### Exhibit 3 – Trade Balance Evolution

(10 <sup>6</sup> USD)	2008	2009	2010	2011	2012
Exports fob	63.914	40.828	50.595	65.500	70.953
Imports fob	20.982	22.660	16.667	22.000	22.318
Balance	42.932	18.168	33.928	43.500	48.635
Coverage ratio (%)	304,6	180,2	303,6	335,9	314,5
World ranking position					
As an exporter	49 <sup>th</sup>	52 <sup>th</sup>	53 <sup>th</sup>	52 <sup>th</sup>	n.a.
As an importer	72 <sup>th</sup>	64 <sup>th</sup>	76 <sup>th</sup>	72 <sup>th</sup>	n.a.

Source: The Economic Intelligence Unit (E.I.U.) and WTO- World Trade Organization

### Exhibit 4 – Trading Data

#### Main Clients

(10 <sup>6</sup> USD)	2009		2011		2012	
	Share %	Position	Share %	Position	Share %	Position
China	36,9	1 <sup>o</sup>	42,8	1 <sup>o</sup>	37,7	1 <sup>o</sup>
USA	24,3	2 <sup>o</sup>	23,0	2 <sup>o</sup>	21,0	2 <sup>o</sup>
Taiwan	2,7	7 <sup>o</sup>	5,4	4 <sup>o</sup>	8,6	3 <sup>o</sup>
Canada	3,0	6 <sup>o</sup>	3,0	7 <sup>o</sup>	3,7	4 <sup>o</sup>
Italy	0,1	26 <sup>o</sup>	0,7	13 <sup>o</sup>	3,1	5 <sup>o</sup>
Portugal	0,5	17 <sup>o</sup>	1,4	8 <sup>o</sup>	2,5	8 <sup>o</sup>

Source: ITC – International Trade Center

#### Main Suppliers

(10 <sup>6</sup> USD)	2009		2011		2012	
	Share %	Position	Share %	Position	Share %	Position
Portugal	17,9	1 <sup>o</sup>	16,2	1 <sup>o</sup>	18,1	1 <sup>o</sup>
China	13,6	2 <sup>o</sup>	12,8	2 <sup>o</sup>	15,5	2 <sup>o</sup>
USA	8,1	3 <sup>o</sup>	8,2	3 <sup>o</sup>	8,4	3 <sup>o</sup>
Brazil	7,6	4 <sup>o</sup>	6,0	4 <sup>o</sup>	6,0	4 <sup>o</sup>
South Africa	3,9	6 <sup>o</sup>	4,5	6 <sup>o</sup>	5,0	5 <sup>o</sup>

Source: ITC – International Trade Center

## Main Products Traded - 2011

Exports / Sectors	%
Oil	97,4
Ships and boats	1,4
Precious stones and metals	0,8
Machinery and mechanical appliances	0,1
Iron and steel	0,1

Imports / Sectors	%
Machinery and mechanical appliances	13,6
Ships and boats	8,3
Machinery and electric appliances	7,8
Motor vehicles and spare parts	6,3
Iron and steel	6,3

**Source:** ITC – International Trade Center

## Exhibit 5 – African Countries Basic Indicators 2012

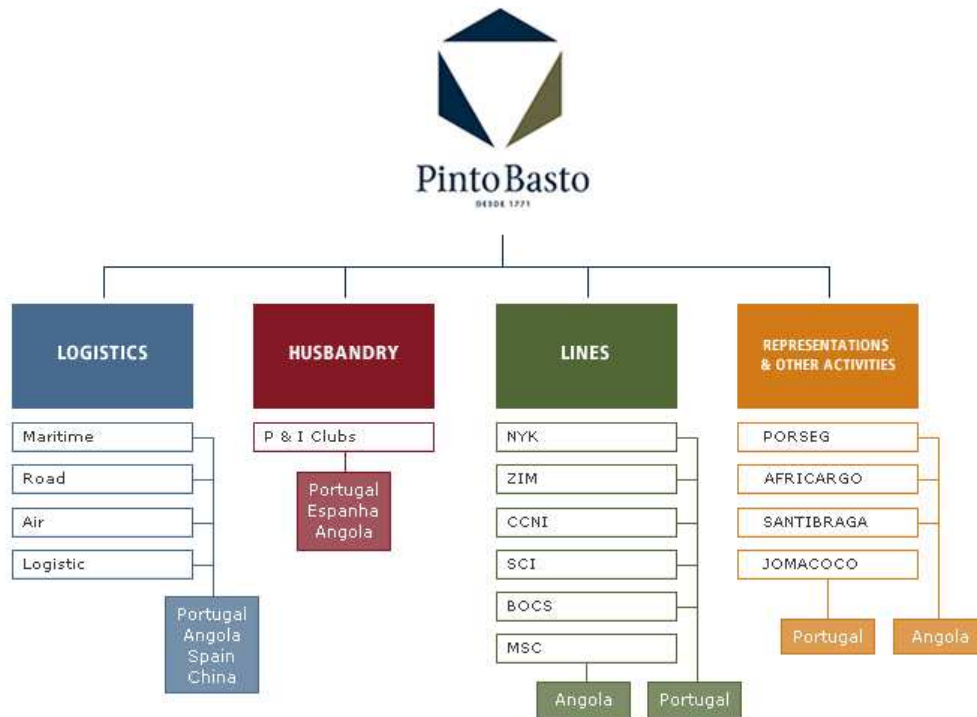
	Population (thousands)	Land area (thousands of km <sup>2</sup> )	Population Density (pop / km <sup>2</sup> )	GDP based on PPP valuation (US \$ Million)	GDP per Capita (PPP valuation, \$)	Annual real GDP growth (average over 2004-2012)
Algeria	36 486	2 382	15	274 496	7 523	3.1
<b>Angola</b>	<b>20 163</b>	<b>1 247</b>	<b>16</b>	<b>126 214</b>	<b>6 260</b>	<b>11.6</b>
Benin	9 352	115	81	15 505	1 658	3.5
Botswana	2 053	582	4	31 491	15 337	4.7
Burkina Faso	17 482	274	64	24 027	1 374	5.9
Burundi	8 749	28	314	5 489	627	4.1
Cameroon	20 469	475	43	50 324	2 459	3.3
Cape Verde	505	4	125	2 175	4 303	4.5
Central Afr. Rep.	4 576	623	7	3 847	841	2.8
Chad	11 831	1 284	9	21 335	1 803	9.3
Comoros	773	2	416	872	1 127	1.9
Congo	4 233	342	12	19 267	4 552	5.1
Congo Dem. Rep.	69 575	2 345	30	27 533	396	6.3
Côte d'Ivoire	20 595	322	64	39 635	1 925	2.0
Djibouti	923	23	40	2 377	2 576	4.3
Egypt *	83 958	1 001	84	537 758	6 405	4.8
<b>Equatorial Guinea</b>	<b>740</b>	<b>28</b>	<b>26</b>	<b>28 029</b>	<b>37 853</b>	<b>10.9</b>
Eritrea	5 581	118	47	4 412	791	1.7
<b>Ethiopia*</b>	<b>86 539</b>	<b>1 104</b>	<b>78</b>	<b>103 138</b>	<b>1 192</b>	<b>10.9</b>
Gabon	1 564	268	6	26 711	17 080	3.6
Gambia	1 825	11	161	3 495	1 916	2.9
Ghana	25 546	239	107	83 176	3 256	7.4
Guinea	10 481	246	43	12 250	1 169	2.7
Guinea-Bissau	1 580	36	44	1 902	1 204	3.0
Kenya	42 749	580	74	76 074	1 780	4.8
Lesotho	2 217	30	73	3 945	1 780	4.3
<b>Liberia</b>	<b>4 245</b>	<b>111</b>	<b>38</b>	<b>2 693</b>	<b>635</b>	<b>7.4</b>
<b>Libya</b>	<b>6 469</b>	<b>1 760</b>	<b>4</b>	<b>87 913</b>	<b>13 589</b>	<b>7.8</b>
Madagascar	21 929	587	37	21 372	975	3.1
Malawi	15 883	118	134	14 581	918	5.6
Mali	16 319	1 240	13	17 355	1 063	3.8
Mauritania	3 623	1 031	4	7 615	2 102	4.5
Mauritius	1 314	2	644	20 259	15 420	4.0
Morocco	32 599	447	73	170 953	5 244	4.5
<b>Mozambique</b>	<b>24 475</b>	<b>799</b>	<b>31</b>	<b>26 215</b>	<b>1 071</b>	<b>7.4</b>
Namibia	2 364	824	3	16 845	7 124	5.2
Niger	16 644	1 267	13	13 530	813	5.3
<b>Nigeria</b>	<b>166 629</b>	<b>924</b>	<b>180</b>	<b>450 535</b>	<b>2 704</b>	<b>7.2</b>
<b>Rwanda</b>	<b>11 272</b>	<b>26</b>	<b>428</b>	<b>14 908</b>	<b>1 323</b>	<b>8.3</b>
São Tomé & Príncipe	172	1	179	403	2 345	5.3
Senegal	13 108	197	67	26 504	2 022	3.9
Seychelles	88	0.460	192	2 410	27 295	4.1
<b>Sierra Leone</b>	<b>6 126</b>	<b>72</b>	<b>85</b>	<b>8 376</b>	<b>1 367</b>	<b>7.2</b>
Somalia	9 797	638	15	...	...	...
South Africa	50 738	1 219	42	578 640	11 404	3.6
South Sudan	10 386	644	16	...	...	...
Sudan	35 336	1 879	19	80 431	2 276	5.1
Swaziland	1 220	17	70	6 149	5 038	2.0
Tanzania	47 656	947	50	73 498	1 542	6.9
Togo	6 283	57	111	6 899	1 098	3.3
Tunisia	10 705	164	65	104 413	9 754	3.8
Uganda	35 621	242	147	50 591	1 420	6.9
Zambia	13 884	753	18	23 676	1 705	6.3
Zimbabwe	13 014	391	33	6 909	531	-0.3
<b>Africa</b>	<b>1068 444</b>	<b>30 066</b>	<b>36</b>	<b>3359 148</b>	<b>3 204</b>	<b>5.4</b>

Note: \* Fiscal year July (n-1)/June (n)

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2010 Revision.

## Exhibit 6 – Pinto Basto Organizational Chart and Presence in Angola

### Organizational Chart



Source: Pinto Basto Information

### Presence in Angola



Source: Pinto Basto Information

## Exhibit 7 – Relations with Portugal

### Importance of Angola on Portuguese Trade Flows

(10 <sup>6</sup> USD)		2008	2009	2010	2011	2012
Angola as a Portuguese client	Position	4 <sup>o</sup>	4 <sup>o</sup>	5 <sup>o</sup>	4 <sup>o</sup>	4 <sup>o</sup>
		5,82	7,07	5,11	5,44	6,61
Angola as a Portuguese supplier		21 <sup>o</sup>	36 <sup>o</sup>	15 <sup>o</sup>	11 <sup>o</sup>	6 <sup>o</sup>
		0,64	0,29	0,96	1,99	3,18

Source: INE – National Institute of Statistics (Portugal)

### Bilateral Trade Balance Evolution

(10 <sup>6</sup> USD)	2008	2009	2010	2011	2012	Var % 08/12	Var % 11/12
Exports	2.261.264	2.242.450	1.905.671	2.331.161	2.998.757	8,8	28,6
Imports	407.996	151.089	563.452	1.117.501	1.781.471	92,6	51,3
Balance	1.853.268	2.091.361	1.342.219	1.153.660	1.217.286	-	-
Coverage Ratio	554,2%	1484,2%	338,2%	198,0%	168,3%	-	-

Source: INE – National Institute of Statistics (Portugal)

### Importance of Angola on Portuguese Investments Flows

(10 <sup>6</sup> USD)		2008	2009	2010	2011	2012
Portugal as a receptor	Position	18 <sup>o</sup>	14 <sup>o</sup>	18 <sup>o</sup>	52 <sup>o</sup>	11 <sup>o</sup>
	%	0,14	0,36	0,08	-0,24	0,87
Portugal as an issuer	Position	3 <sup>o</sup>	3 <sup>o</sup>	5 <sup>o</sup>	3 <sup>o</sup>	4 <sup>o</sup>
	%	6,81	8,93	6,84	4,65	3,48

Source: Bank of Portugal

### Angolan direct investment in Portugal

(10 <sup>6</sup> USD)	2008	2009	2010	2011	2012	Var % 08/12	Var % 11/12
Gross investment	49.820	116.030	32.842	-102.782	341.192	-195,9	-432,0
Disinvestment	4.126	478	2.230	1.797	6.604	131,5	267,5
Net investment	45.694	115.552	30.612	-104.579	334.586	-	-

Source: Bank of Portugal

### Portuguese direct investment in Angola

(10 <sup>6</sup> USD)	2008	2009	2010	2011	2012	Var % 08/12	Var % 11/12
Gross investment	775.127	693.765	669.472	909.505	312.823	-10,9	-65,6
Disinvestment	1.434.059	1.062.316	512.129	532.917	430.283	-23,2	-19,3
Net investment	-658.932	-368.551	157.343	376.588	-117.460	-	-

Source: Bank of Portugal

### Exhibit 8 – Competitors Strengths and Weaknesses

Company	Strengths	Weakness
SDV	<ul style="list-style-type: none"> <li>• Dimension;</li> <li>• Strong national and international presence;</li> <li>• Clients portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>• High Costs;</li> <li>• Low flexibility in services.</li> </ul>
Panalpina	<ul style="list-style-type: none"> <li>• Dimension;</li> <li>• Strategic Partnerships.</li> </ul>	<ul style="list-style-type: none"> <li>• No road fleet.</li> </ul>
NDS	<ul style="list-style-type: none"> <li>• Dimension.</li> </ul>	<ul style="list-style-type: none"> <li>• Highly dependent of the headquarters.</li> </ul>
Pinto Basto Angola	<ul style="list-style-type: none"> <li>• Flexibility in services;</li> <li>• Strong sales team;</li> <li>• Group structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Fast response;</li> <li>• Low geographical dispersion.</li> </ul>

Source: Pinto Basto Information

### Exhibit 9 – Profile SDV

<b>Company</b>	SDV is an international logistic subsidiary of the French Bolloré Group. The company was founded in 1885 in France with intend to establish a Europe-Africa route. Due to its consolidation strategy, SDV made a series of acquisition in the 2000’s: Geis network in Asia (2004 – SDV Geis); SWG Logistic in India (2005); JE Bernard in the United Kingdom (2007 – SDV UK), and a majority participation in Getco, Italy, a multimodal operator.
<b>Services</b>	<ul style="list-style-type: none"> <li>• Multimodal Transportation (Core business of the company)</li> <li>• Customs and Regulatory Compliance</li> <li>• Logistics</li> <li>• Industrial Projects</li> <li>• Supply Chain Management Consulting</li> </ul>
<b>Geographical Presence</b>	<ul style="list-style-type: none"> <li>• Africa</li> <li>• Europe</li> <li>• Middle East &amp; South Asia (Head Quarters in Dubai and Deli)</li> <li>• Asia-Pacific (Head Quarters in Singapore)</li> <li>• Americas (Head Quarters in New York)</li> </ul>

Source: Company’s website

### Exhibit 10 – SDV AMI Angola

<b>Company</b>	SDV AMI Angola started as subsidiary of Bolloré Group in 1999, and the year of foundation dated 1931. The subsidiary has a large fleet of equipment that includes 2 cranes, 8 forklifts, 100 trucks, 4 super star trucks and ancillary material. SDV AMI Angola handles 2 335 000 containers and 6 million tons year.
<b>Recent Investments</b>	The company has recently invested hard in Angola, among the several investments the following are those who contribute majorly for the expansion of the firm:

	<ul style="list-style-type: none"> <li>• Storage facilities in Luanda (41 000 m2)</li> <li>• Storage facilities in Lobito (39 000 m2)</li> <li>• Storage facilities in Cabinda (6500 m2)</li> <li>• New branches in Soyo</li> </ul>
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Source: Company's website

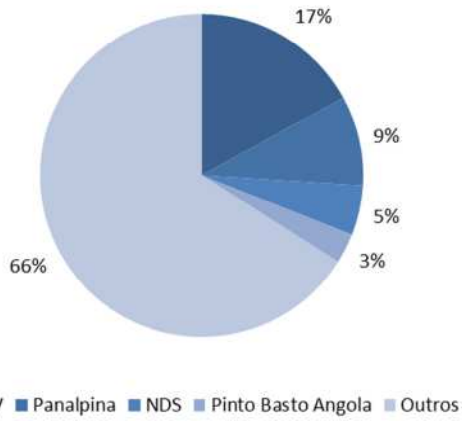
### Exhibit 11 – Whole Profile Panalpina

<b>Company</b>	<p>Panalpina is a Swiss based company, listed in SWX Swiss Exchange since 2005. The company strategy has been the focus on a diversified client portfolio, including Global Accounts (representing 30% of the revenue) and SME's customers (representing 70% of the revenue). Panalpina has been trying to position themselves as a low price operator, by optimizing the operations by scale.</p>
<b>Services</b>	<ul style="list-style-type: none"> <li>• Multimodal Transportation (Air, Ocean, Road and Rail)</li> <li>• Logistics</li> <li>• Industrial Projects</li> <li>• Supply Chain Management Consulting</li> <li>• Business Implementation Consulting</li> <li>• Information Technology Systems</li> </ul>
<b>Geographical Presence</b>	<ul style="list-style-type: none"> <li>• Africa</li> <li>• Europe</li> <li>• Middle East</li> <li>• Commonwealth of Independent State (CIS)</li> <li>• Asian-Pacific</li> <li>• Americas</li> </ul>

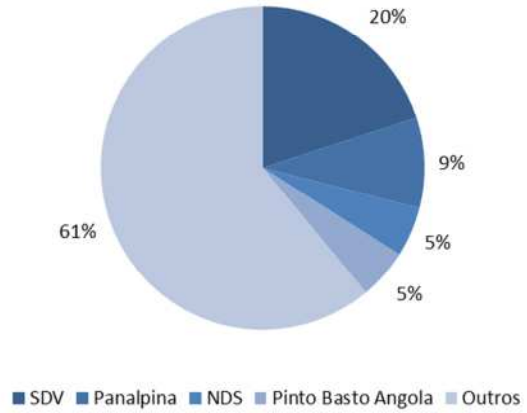
Source: Company's website

**Exhibit 12 – Market Shares**

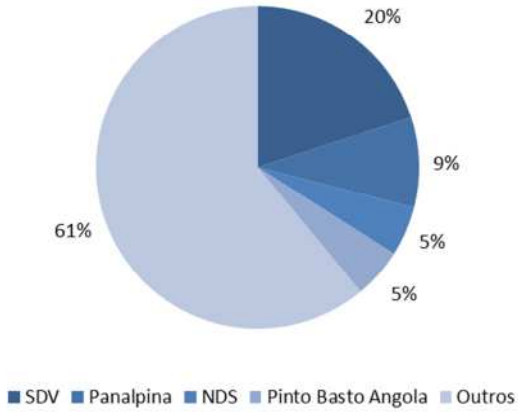
**2009**



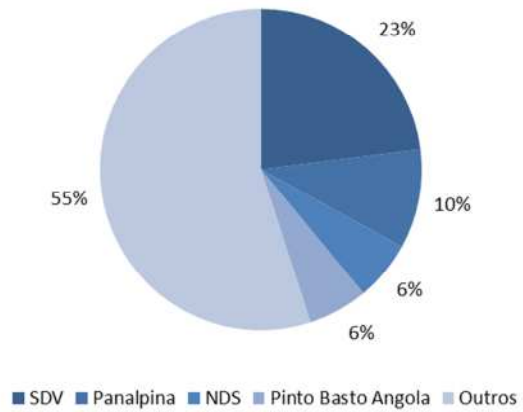
**2010**



**2011**



**2012**



**Source:** Pinto Basto Information

### Exhibit 13 – Players in Road Transportation

	Total Revenue ('000 AOA)			Total Costs ('000 AOA)		
	2008	2009	2010	2008	2009	2010
TCUL	639796.304	2620964.17	3890878.31	865559.435	-2356154.5	3751157.86
Unicargas	5108603.743	14045297.6	-	4949350.41	6121133.28	
Abamat	546017.066	202707.213	30819.997	559129.934	242177.117	129875.294
ETP Cabinda	56657.523	60612.768	40982.910	46998.514	50380963.3	45046.112

	Total Revenue ('000 AOA)		
	2008	2009	2010
TCUL	-104227.438	4897775.896	2677536.916
Unicargas	103846.389	4336202.274	-
Abamat	30141.678	-41823.737	-96962.368
ETP Cabinda	9487.667	9576.224	-4956.154

	Loaded Cargo (To.)			
	2008	2009	2010	2011
Unicargas	2.175.081	1.629.312	775.870	537.192
ETP Cabinda	108.753 <sup>a)</sup>	460.092	460.092	372.060

Source: PwC Knowledge Management

## Exhibit 14 – Investments in Transportation Infrastructures

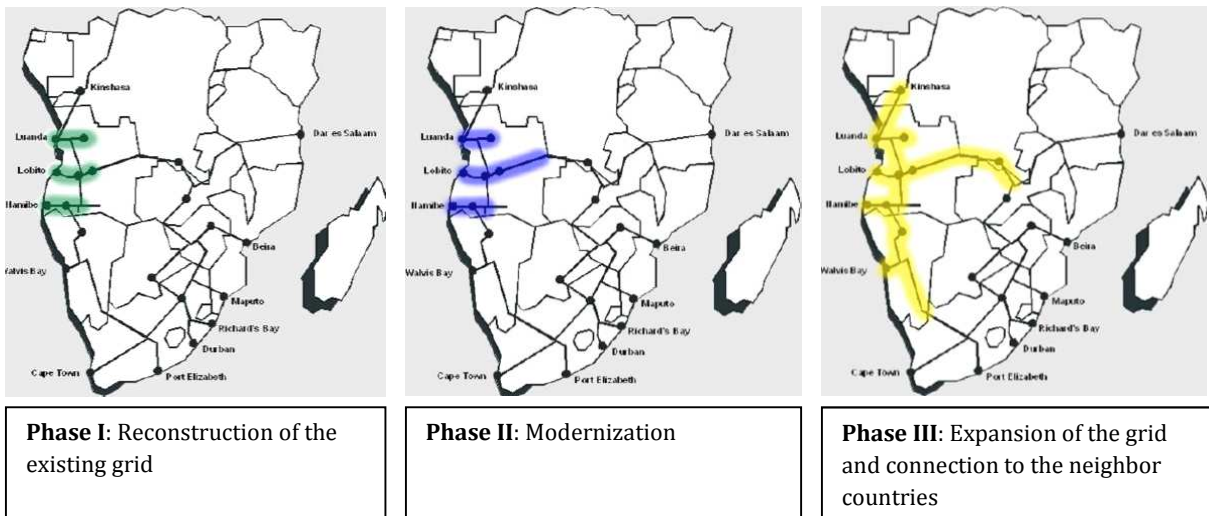
### Road Grid



The government has been extending the main and secondary roads since 2002. The investments are not yet quantified by the government.

Source: Angola Profile, Apex Agency Reports Brazil

### Railway Grids



Source: Angola Profile, Apex Agency Reports Brazil

### Exhibit 15 – Fixed and Variable Costs

#### Fixed costs (annually)

Number of drivers	22 (10% more than the number of trucks due to high absence rates)
Monthly wages	250 (250 monthly cost per driver)
Insurance per truck	240
Office staff (FTE)	2
Monthly wages	1,200

#### Variable costs (per job)

Driver	10
Fuel	100
Others	Other Variable costs are 15% of the revenue per job

Source: Pinto Basto Information

### Exhibit 16 – Segmentation



Source: Pinto Basto Information