

SUMOL+COMPAL INTERNATIONAL STRATEGY:

FDI in the African market

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ABSTRACT

Title: Sumol+Compal International Strategy: FDI in the African Market

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In 2009 Sumol+Compal started its operations as a group after the merger of two companies well known in the Portuguese market for non-alcoholic beverages, Sumol and Compal. Determined in being an international reference in the soft-drink industry, in 2011 the Group was already present more than 60 countries worldwide.

The reduction of consumer's disposable income and contraction of the non-alcoholic drinks industry was a reflect of the economic crisis that world economy was going through. The 2011 domestic turnover of Sumol+Compal suffered a considerable downsizing in that same year while the turnover for international operations increased with special focus on the African Continent, namely in Angola.

Facing the domestic market situation and the market potential from Africa, Sumol+Compal managers wanted to go beyond simple exportations and start producing locally in that continent. For that, the international operations department had to present a study on most viable countries to make that investment.

This case is based on a real situation of internationalization process in which Sumol+Compal had to go in order to seize the opportunity from the African market. The case focuses mainly in the internationalization process as well as in the respective identification of internal strengths, opportunities and other the relevant topics to take the next step.

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1. CASE STUDY

1.1 Introduction

It was February 2012, when CMVM¹ (Comissão do Mercado de Valores Mobiliários) received a statement giving the account of the constitution of SUMOL+COMPAL Moçambique where the Portuguese group held a stake of 100% on the start-up phase. However it was expected to sell up to 25% of that company to local partners².

This important step for the expansionary strategy of the group made part of the plan developed for the possible production in Mozambique and distribution in that and in the remaining countries making part of the Southern African Development Community (SADC)³

The announcement of the constitution of the new company defined as its main purpose the acquisition of a factory for the production and sale of juices and nectars through brands of the group's portfolio. The company could still develop agro-industrial activities, importation and exportation of products and brand management.

“This project is an important step in the internationalization process of Sumol+Compal, crucial point in the company's strategy for coming years, and is part of a broader program of identifying strategic partnerships that can contribute to the consolidation of business in Portugal and growth in international markets” said the group representative for market relations.

However, this was not the first demonstration of interest in investing in Africa through a FDI⁴ project. In 2009, Sumol+Compal had signed a memorandum with an Angolan company for the potential construction of a production facility in that country.

From 2009 to 2011 Sumol+Compal international sales were made throughout exportations and were performing quite well, increasing in value and reaching, in 2011, the maximum of those 3 years. **(Exhibit 1)**

Under the supervision of the international operations department, the African Continent had been the main destiny of foreign trade activities. Present in more than 20 countries sales grew by 38,5% in this continent, being Angola the most important market during 2011⁵.

Created in 2009 the international operations department was formed so that there was a responsive structure to develop the kind of investments necessary to achieve a stronger competitive

position in international markets. The department studied Africa for 2 years and in 2011 decided to include and focus on that continent as a segment in the new strategic plan for the coming years.

As the potential of the African continent, its relevance for the group operations and the intention of top managers to expand international activities beyond simple exportations were clear, the international operation departments had to study (i) the most attractive countries to make direct investment, their competitive advantages and relevant relations with the Group as well as (ii) which countries or regions should those plants supply.

For top managers the final configuration was a scale business for which it was necessary to guarantee the presence of market, resources and conditions. And they wanted the international operations team to come with conclusions about these topics to support their expansionary decision.

1.2 Sumol+Compal

By the year 2011 Sumol+Compal was leader in the Portuguese non-alcoholic drinks market⁶ producing two of the most known Portuguese brands in this industry, representing and distributing some of the most popular and biggest-selling brands of fruit juices, nectars, carbonated soft drinks, sparkling and still water. The group owned brands like Sumol, Compal, Um Bongo, B!, Serra da Estrela and Frize among other. **(See exhibit 2)**

In 1954 Refrigor came out with a revolutionary product, the first fruit juice soft drink in Portugal. It was the birth of Sumol. The continuous efforts to improve distribution networks, production methods and R&D were in the basis of the growth of the Refrigor Company, later Group Sumol was created for the brand management, production and distribution of the group soft drinks, waters, beers and juice drinks.

Compal started its activity in the 50's operating in the concentrated tomato industry. Since its early age, Compal suffered numerous changes on its administration structure, going public and then returning to the private sector in 1993. The company that started with concentrated tomato expanded its operations through the production of fruit juices and nectars. The core business of Compal was expanded internationally and a strong position in Spain was achieved in 2003. In 2005 a consortium formed by Grupo Sumol and Caixa Geral de Depósitos acquired Compal S.A.⁷

Sumol+Compal resulted from a merger process started at the end of 2005 and finished by 2009. In 2011 the group had a market share one and a half times greater than that of its nearest competitor in the non-alcoholic beverages sector in Portugal. The group determined its guidelines by reconciling the business strategy of its predecessors and their history of over 50 years of successes. A

vision based on the fact that fruits, vegetables and water are an essential source of pleasure was assumed as a mainstay for the mission of being an international reference company in the market of fruit drinks, to play the lead in high rotation beverage market in Portugal and maintaining the leading position in the markets for prepared vegetables and tomato-based products.

Sumol+Compal was the only company of the food and beverages sector listed on the NYSE Euronext Lisbon. By 2011 the group employed roughly 1400 people, a portfolio of almost 50000 direct customers over the Horeca⁸, Cash&Carry and retailers and four plants located in Portugal (Almeirim, Pombal, Gouveia and Vila Flor)⁹.

1.3 Main Brands of the group

From 2009 to 2011 Sumol+Compal evidenced its commitment to go abroad and that determination and intentions were changing the way the group managed its own brands. Always in pursuit of excellence, the group managing and innovation efforts headed to a more ample framework that guided for new objectives and intervention activities.

The 2011 results and sales volumes highlight the importance and urgency of that change (see **Exhibit 3**). Taking together the brands of most importance, Compal and Sumol, total 2011 sales accounted for 211 million litres of which 52% were made in international markets¹⁰.

Although Compal and Sumol brands represented the most important ones from the portfolio, the group business units could be segmented into 3 categories¹¹:

- Nutrition
- Soft Drinks
- Waters and beers

A wide range of products, result of constant efforts on R&D and innovation, was well known among Portuguese consumers who favoured nutrition products available in a variety of packs and flavours under the brand names of Compal and Um Bongo. Extending from canned vegetables and tomato derivate to nectar juices Sumol+Compal kept up with the trend of consumer's preference for healthy products. Compal Essencial was developed to meet the needs of the modern consumer who valued the nutrition equivalence to a piece of fruit in a pack of practical dimensions for daily carry¹². Furthermore, Compal was constantly looking for new flavours and new fruits to expand the portfolio to launch seasonal or permanent new options. The experience and knowledge from the pre-merger Compal was kept in the Group so consumers maintained their trust and kept familiarized with the tradition of these brands translated in quality and innovation.

The soft drinks segment success was in identifying opportunities for the development of brands, to keep with the quality that customers were used to, and to enter into new market segments. The group most known brand, Sumol, made part of this segment and the constant monitoring of consumer needs and trends turned it into a national and international reference in the fruit juice beverages. In this segment were included brands like 7up and Pepsi for which Sumol+Compal had a production, sale and distribution contract for Portugal, and other brands created and adapted by the Group in order to meet the needs from different niches and segments. Example of that concern about the consumer was the GUD brand. Developed specially for the markets from Austral Africa, this product was a source of vitamins very important in growing children.

The waters and beer segment consisted mainly of Água Serra da Estrela (spring water), Frize (a carbonated mineral water) and Tagus (beer).

1.4 Sumol+Compal and the Portuguese Market

About 25 companies formed the Portuguese market for non-alcoholic soft drinks, which included the nutrition and soft drink segments from Sumol+Compal business units. As Portugal was inserted in the E.U. the soft drinks industry was legally regulated by European and national alimentary rules that guarantee the use of the most demanding and technical processes on safe reception of raw materials, preparation of drinks, bottling, storage and distribution¹³. Additionally ASAE¹⁴ was in charge of a regular inspection on the quality and safety of raw materials and products over the entire process of production and distribution. With both national and international players producing and distributing in Portugal this sector represented over 5% of the agro-food industry turnover.

Portugal was under an economic crisis and the economic situation of the country was being felt in the most diverse areas of the industry and during 2011 European Commission, European Central Bank and International Monetary Fund negotiated the terms of a bailout plan for Portugal, defining a set of measures that government would have to meet. The Portuguese GDP decreased by 1,5% and inflation rate was at 3,8%¹⁵. In 2011 Portugal was one of the Eurozone members with the highest unemployment rate at 13,6%¹⁶. The recession had its consequences in almost every industries and Sumol+Compal was not free of the downturn effects. From 2010 to 2011 the non-alcoholic drinks sector saw its market value back down to 890 million euros, a downsizing of 4,8% comparatively to 2010¹⁷.

A substantial drop marked 2011 in the confidence among economic agents. Paralleling the previous year (**see exhibit 4**) it was clearly evident the early adoption of an adjustment on the consumption patterns as a consequence of the erosion on the disposable income of the consumers¹⁸

and their manifested preference for distribution brands with more attractive prices. Furthermore, the Soft Drinks and Nutrition sectors were highly dependent on international trade of raw materials and subject to tremendous pressure from distribution companies¹⁹. From 2010 to 2011 energetic costs increased along with the increase in the costs of raw materials²⁰ and for 2012 it was expected an increase on soft drinks VAT from the current 6% to 23%²¹. The situation of the Portuguese economy and the state of the industry took its toll on the Group's operations. In fact a 10,5% decrease in the 2011 domestic turnover for Sumol+Compal was registered.

The observed depressed macroeconomic environment emphasized the tough trading conditions that affected Sumol+Compal sales in the Portuguese market. Sumol+Compal suffered a loss of 0,4 p.p. in market share. However the leadership in the non-alcoholic beverages segment was maintained with a share of 25%. In-home consumption share dropped from 22,5% to 21% due to the on going behaviour of private labels while out-of-home consumption achieved a share of 27,5%²².

1.5 International Presence of Group Sumol+Compal

The International Markets represented a business area with great relevance for the Group. Sumol+Compal foreign trade activities covered more than 60 countries over 4 continents through exportations. During 2011 the business structure for international markets was fortified over the establishment of three new employees in target markets. Two elements were placed in Angola and one local collaborator was hired in China. Also the exportation destinations were amplified from 63 to 69 countries.

“In our core brands over 40% of the volume of Sumol and Compal are performed outside Portugal. I would even say that today we sell more Sumol outside Portugal. In the foreign market strategy is to continue to grow by broadening the geographical base destination of our products”²³

Duarte Pinto, Sumol+Compal CEO, highlighted the importance of the foreign markets and the intention of the Group to strengthen its international strategy and reinforce its worldwide presence.

At a growth rate of 30% Sumol+Compal achieved the historic maximum of 80,0million euros sales in international markets in 2011, representing 24,1% of total sales (**see Exhibit 1**). The most representative brands in foreign markets were Sumol and Compal that observed sales increase of 57.0% and 19,5%, respectively in the period²⁴.

Exportations to the rest of Europe increased by 15,9%²⁵ with special focus on the northern Europe where Compal Essential proved to please the local consumers, and reinforced the relevance

of the different brands and products in the Group's portfolio. In America and Asia sales performed positively with exception of Caribbean and Canada where sales contracted. In markets considered culturally distant the Group had always made efforts to build good relationships, especially through commercial flexibility and to learn with local partners and collaborators the best way to penetrate the market. The great variety of products produced in Portugal gave opportunity to serve different and distant markets and through the wide variety of quality products to serve each different type of local or regional consumers.

Facing the economic environment and internal signs of a higher degradation of demand the internationalization strategy of Sumol+Compal was focusing efforts in the African continent. Africa was the main exportation destination registering a growth in sales of 38,5%²⁶ in 2011. In this continent some brands of the group were perfectly consolidated. In Angola, Mozambique and Cape Verde the Group's position was supported by strong marketing campaigns. The consumers were used to the quality and innovation of Sumol+Compal products that made them their favourites, somehow there was a tradition and a strong relation between the Group and the consumers based on long lasting presence in some countries and the fact of being a Portuguese company induced trust.

1.6 International Strategy and Objectives

The domestic operations were in decline while the foreign trade activities were performing quite well and getting more relevant for the whole operation. The recession felt in Portugal was day by day emphasizing the opportunities coming from external markets.

Sumol+Compal stated as part of their mission "*to be an international reference company within the fruit beverages*", in fact they were already present in 69 countries. Nevertheless top managers wanted to maximize competitiveness of domestic and international activities and to explore the potential of international markets through local production.

By exporting to a variety of countries which differed in terms of culture, preferences, demographics, economic and political stability and other topics, Sumol+Compal was learning and acquiring knowledge on those different dimensions, was creating commercial relations that could later be very practical and helpful. The foreign trade activities, exportations, permitted a more detailed and accurate inventory of opportunities that the International Operations Department could then study and allocate resources to find out if in fact there was potential for local production in order to achieve greater sales volumes for the country or region in question.

During the study phase the Group would determine, before going ahead with the implementation of a major direct investment, if in fact the products were being well accepted, if there

was no need for further product adaptation, if the target market was stable enough to penetrate it with a long-term investment, basically it was to recognize the presence of a market.

The Group also valued strong partnerships with local agents. Those partnerships should be very useful when collecting information about distant and different markets, should share the same vision and be strategically relevant in terms of know-how, distribution or even financial purposes. The use of partnerships exploited the experience that local agents already had on those markets, and made it easier for the Group to learn how to operate there.

Nevertheless the Group should be able to seize the opportunity of those markets, the Group should have own conditions to do so. To be capable of identify and timely place the qualified human resources and capital to implement the project.

In early 2011, the International Operations Department had already two projects on an advanced phase, Angola and Mozambique had already been studied and their potential had been identified. These were the countries that presented most potential for the successful implementation of the expansionary strategy and to develop a local production project.

1.7 Interest in Africa

The African continent has been recognised, since the 90's to be on an upward trail economically, socially and politically. The long-term process of reforms at economic and regulatory level that took place across much of the continent underpinned this continent growth path. From the year 2000 the business environment improved, the infrastructure investments increased and commodities in Africa experienced a boom. From 2001 to 2010 six out of ten of the fastest growing economies in the world were in Africa (**See Exhibit 5**). The African population ascended to 1 billion (**See Exhibit 6**), GDP in 2011 was 967 361 US\$ million (**See Exhibit 7**) with an average growth rate in of 5,2% between 2003 and 2011 (**See Exhibit 8**). Africa represented a source of natural resources and raw materials abundance. Regarding human capital, even if with low level of education it had an increasing working age population. Furthermore, a great part of African countries had strong trade links with European countries and the north of Africa proximity to Europe made it easier to access the market.

The African community was becoming wealthier. The growing middle class had more spending power, communications and telecommunications evolved giving place for a new consumer market²⁷. With an average age on the 19,7 years²⁸ old this continent had high fertility rates (**See Exhibit 9**) and life expectancy at birth increased to 57 years old. The tendency for consumption was high. While in Europe a great part of the household income was destined to themes like healthcare or

habitation, in Africa those concerns were not real, so the demand for consumer good was high²⁹. Additionally the risks addressed to investments made in that continent did not allow for industry saturation giving occasion to higher growth margins and emerging markets opportunities. The consumer goods sector was listed on the top 5 sectors with greatest potential **(See Exhibit 10)**.

Despite the great evolution in communications, transports and logistics there were a great number of investors who were not attracted to Africa, arguing as main barrier for investment in Africa the unstable political environment **(See Exhibit 11)**. Moreover, a great part of countries from Southern Africa were not so attractive in terms of corruption and regulatory environment.

Five different trade zones could be found in Africa **(See Exhibit 12)** with stated goals for the creation of free trade areas or custom unions. These blocks had been formed as a strategy of self-defence and economic development, regional integration was a vehicle for political stability and economic sustainability. Neighbouring states were more cooperative in trade and projects. Sumol+Compal had special interest for the SADC. That region represented a great potential for Sumol+Compal, the union objectives **(See Exhibit 13)** were supportive for the group's intentions for Africa, to serve that market. The clear signs of evolution and economic growth of those countries forming the SADC caught the Group's attention **(See Exhibit 14)**. The SADC trade protocol established as its highest objective the liberalization of intra-regional trade of goods and services. The establishment of a free-trade area was meant to remove the trade barriers and implement a zero tariff for goods produced in that region. Technical standards and norms of commerce were also introduced in order to safeguard and maintain available to consumer competitive goods in terms of quality. Customs rules and procedures were coordinated in order to ease and simplify the transition of goods between countries. However, the increased spending power of the African people was not uniform and there still was a considerable part of the population living with US\$1 a day³⁰.

The extremely low income per capita acted as a barrier for the imported products namely for Sumol+Compal products. Through exportation, consumers were subject to products at twice the price charged in Portugal. The curious thing is that even so they were willing to pay. Mainly because, in general, local supply was limited and with poor quality, so European products were seen as guaranteed quality products. With a strong presence of Brazilian and Chinese companies of soft drinks, in Africa there were also companies like Coke, Don Simon from Spain and Parmalat, which were at the same competitive level of Sumol+Compal products.

Already with operations in most part of those countries, the international operations team believed that great volumes would be possible through local production.

1.8 Angola

After independence in 1975, Angola faced a civil war that lasted several decades until 2002. The country located in the western coast of Africa occupied an area of 1,246,700 km² was rich in natural resources and had extensive oil reserves. With a population characterized by the different African ethnicities that formed it, most part of the population followed the Christian Church. Portuguese was the official language, still there was a lot of local dialects and African languages spoken in the country. Angolan civil legal system was based on the Portuguese law³¹. Between 2003 and 2011 Angola was one of the main destinations for Foreign Direct Investment in Africa, those values increased until 2009 and then in 2010 the financial crisis forced a downturn of those values (**See Exhibit 16**). Kwanza is the official currency, however the dollar is commonly accepted. Oil reserves and mineral resources were the primary focus of attraction. The observed growing middle class and increased private consumption also represented an opportunity to investors looking for new markets such as real estate, construction and communications³²

Between 2001 and 2011 the Angola economy was among the fastest growing economies in the world with a growing rate of 11.3%, (**See Exhibit 15**) ahead of economies like China. Angola FDI inflows registered a contraction after 2008 (**See Exhibit 16**), mainly because of the economic crisis affecting the main investors. During that same period Portugal was the country that most invested in Direct Investment projects (**See Exhibit 17**), in return, the Angolan investment in Portugal increased by 100% between 2007 and 2011 highlighting the close relations between both countries. Included in different free trade areas Angola represented a gateway for those markets. Bank activity in Angola evolved and increased, Portuguese banks were strongly represented and that was a positive factor for the Portuguese investors. Regarding transportation and infrastructures, Angola went through a restructuring of roads and rails that linked the most important cities, smaller airports in provincial areas were under construction and the conclusion of the new Luanda Airport was planned for 2012. The Luanda harbour was constantly congested and cargo ships took a lot of time to unload containers, as they needed to wait patiently and with additional costs for an empty dock.

Investing in African countries required a tremendous ability to adapt and react to the context, it was critical for success an efficient and rigorous implementation of the financial, legal, communication and human resources models. The perceived image from doing business in Angola was that everything was expensive, time consuming, difficult to do and that corruption was still latent and Angola ranked in 163 on the “*Doing Business 2011*”³³ and had an index of 2 for the corruption perception while Portugal had 6,1³⁴. Human resources were expensive and scarce so companies were forced to think about creative and flexible solutions for the placement of qualified and professional staff. However the existence of protocols between Portugal and Angola regarding the issuance of

short duration visas facilitated the business start-up. Goodwill, trust, language and strong historical ties helped to establish partnerships together with the help of consultancy agencies specialized in finding the best partnership. Even if only for oil related activities it was legally mandatory to establish a partnership, it was of major interest to foreign companies creating them.

There was also the issue of bureaucracy, which was reflected in a difficult interpretation of the law and its application to projects, the judicial system weighed heavily on the difficulties of the business. Investment projects in Angola were also very demanding in terms of resources and patient.

Since the end of the armed conflict, Angola had undergone several reforms and legislative changes. Backed attractiveness' increase the political stability, contraction of inflation (**See Exhibit 18**), several customs tariffs change and the introduction of priority sectors that would benefit from investment incentives. Incentives were made in the sense that Angola was intended to be a key country in the African context and privileged partner with Europe, Asia and America taking advantage of its great economic potential.

Competing against Coca-Cola, Red Bull, Schweppes and Refriango and several local brands, Sumol+Compal held in Angola the most important market in Africa, with very young consumers. It was the main exportations destination and where the Group most invested in communication and marketing efforts. Refriango, an Angolan company, and Coke were the most threatening competitors producing locally, although smaller producers had products with a certain quality.

1.9 Mozambique

This former Portuguese colony occupied an area of 799,380 km² in the southern and eastern coast of Africa, with an estimated population of 23.4 million people mainly composed by African ethnicities, only 23% of the population lived in cities. Although the official language was the Portuguese, and in fact it was the most spoken language in the main cities, for most population the mother tongue was an African language. Catholic and Protestant religions were the ones with the strongest presence in Mozambique³⁵. The Mozambican legal system was a mix of the Portuguese civil law, Islamic law and customary law. Although the official currency is the Metical, the US dollar, the South African Rand, the Euros are also usually accepted and used in business transactions.

Since 1975 Mozambique was independent from Portugal, but suffered through 16 years of civil war. Even though, it was considered one of the economically better performing countries of Sub-Saharan Africa and made significantly progress towards political and economical stability. Investments made in mineral resources, industry, services and the support from other countries allowed for an average annual economic growth rate of 7,8% between 2001 and 2011 (**See Exhibit**

19). The development of infrastructures allied with the diversity of resources available in Mozambique were seen as the main drivers to bring changes to Mozambique's economic outlook. Also the modernization of public administration, reforms and legislative updates created an attractive institutional and legal environment for investors.

The Mozambican non-alcoholic drinks segment was included in the food and beverage sector, which was one of the most important to support an economic sustained growth. Campaigns conducted by the local government encouraged the internal production with greater confidence and pride. The Food and Beverage sector in Mozambique was focus of attraction for Foreign Direct Investments (See Exhibit 22)

The increased interest of foreign investors was latent (See Exhibit 20) and local government conducted a set of measures regarding foreign investments incentives. Private investment would benefit from the right to import capital, export profits and re-export invested capital. Government additionally introduced tax and custom incentives under to which all individuals and companies properly investing, would benefit from reductions/exemptions to the taxes they would be subject to³⁶. As part of those benefits the Mozambican State included deductions from taxable income, tax credit for investment, exemption and reduction in tax rates or their deferral and accelerated amortization. Exposure to international prices of cereals, oil and others products was the main reason of the inflation rate fluctuation (See Exhibit 21).

The hiring system in Mozambique was also under specific law that only allowed foreign workers to be hired when there would be no national citizens qualified for the job or if there was no sufficient work force available. The distinction between small, medium and large companies was important in the scheme of hiring quotas. The number of foreign workers to be hired was related to the size of the company. Compared with Angola, in this country it was easier to access more qualified workforce and to place qualified staff there under expatriation. There was a greater balance between the demand and supply of labour force.

Mozambique bordered with countries of great interest to the Sumol+Compal Group and was rich in raw materials such as pineapple, mango and passion fruit that could later be imported to Portugal. Represented an entry point to the SADC market with 250 million consumers potential. The continued and sustained economic growth of Mozambique was very demanding in terms of infrastructure development. Airports, roads, railways presented lots of deficiencies and somehow were considered as constraints for the economic agents trying to exploit the Mozambican market potential. However investments were being made in order to create better infrastructure conditions, projects for the construction of new airports and modernization of Maputo International Airport. Maputo harbour was the second largest of the oriental coast of Africa, was the most important from the 3 harbours in

Mozambique and was directly connected via railways with the neighboured countries. The increased flows registered in that port made necessary the investment to increase the cargo handling capacity.

In addition, products were free of taxes when exported to other SADC members. The legal framework was more stable and more opened, the process for the constitution of a company was relatively easy, fast and at reasonable costs. The reforms made the legal system and tax regime similar to the Portuguese and the Portuguese banks were strongly represented in the Mozambican financial sector.

Although there was a clear evolution fostering the foreign investment, companies were advised to avoid courts, justice in Mozambique was lengthy and there was absence of private ownership of land. Concessions should be made, and the process was often unclear and prolonged.

The competition in Mozambique was felt mostly by South African companies exporting to that country. Regarding big corporations producing in Mozambique only Santal (Parmalat Group) was present. The rest of competition consisted mostly of small local producers.

1.10 Conclusion

The international operations department team had now several decisions and results to present. Top managers were looking for an answer regarding the destination of the Group's investments abroad. Two countries were already on an advanced phase of the project development. Although, during the opportunity inventory formulation, the team realized the huge dimension of the African market, still their major concern was if any of the countries previously studied had the necessary conditions, if the established partnerships were enough and the right ones and if in fact markets would allow for a sustainable growth of the Group.

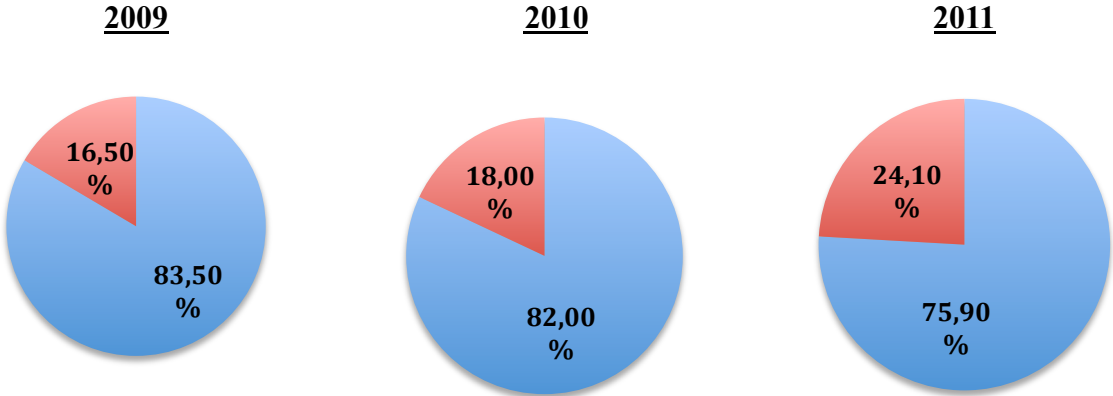
Given the potential of the SADC market as a region and the market for Angola and Mozambique, the team was also expected to answer to the following questions:

- Given the potential of the African region, would there be place and opportunity for more than one independent FDI project?
- What would be the strategy and the countries to supply with more than one plant?

The objective was to start African production by early 2013, so the information and decisions from the International Operations team would be conclusive. Even if the team was accustomed to take decisions on foreign activities and top managers had total trust on them, this was a huge step.

It was also a matter of timing and seizing the opportunity as it was at the time of the constitution of Sumol+Compal Mozambique or the signed memorandum with the Angolan company. It was now time to move to the implementation stage.

Exhibit 1 – Sumol+Compal Turnover, Domestic VS International Market, 2009-2011



	2009	2010	2011
Domestic Market	273,1	281,1	251,5
Foreign Market	53,9	61,6	80,0
Total (M€)	327,0	342,7	331,5

Source: Sumol+Compal Information

Exhibit 2 – Sumol+Compal Brands

Soft Drinks

Brands Owned:     

Production, Sales and Distribution Rights:    

Production, Sales and Distribution for the HoReCa channel: 

Nutrition:       

Waters and Beer:     

Source: Sumol+Compal Information

Exhibit 3 – Sumol+Compal Results, Sales Volume and Cash Flows, 2009-2011

	2009	2010	2011
Results (in million €)			
Absolute gross margin	175,9	192,2	178,0
Operating profit	17,5	32,0	27,8
Consolidated net profit	-5,9	9,4	6,2
Cash Flow (in million €)			
EBITDA	36,4	50,1	46,1
Cash flow from operating activities	42,5	47,9	57,0
Cash flow from investing activities	-5,9	-12,6	-14,3
Free Cash Flow	36,5	35,3	42,8
Sales Volume (in millions of litres)			
Sales Volume	424,5	443,0	430,9
Products	384,1	396,7	398,5
Carbonated soft drinks and Iced Tea	172,7	187,0	195,9
Juices, Nectars and Fruit Still Softdrinks	132,6	129,9	129,8
Waters	52,9	54,2	50,4
Beers	5,4	4,9	4,1
Other	20,5	20,7	18,4
Services Provided	40,4	46,3	32,4

Source: Sumol+Compal information

Exhibit 4 – Consumer Confidence Index, 2009-2011

Consumer Confidence Index ³⁷	Q3/2009	Q1/2010	Q3/2010	Q4/2011
World Average	86	92	90	94
Portugal	53	51	44	36

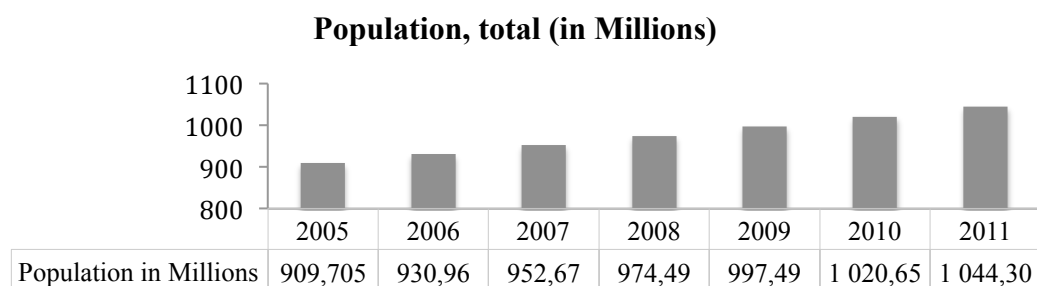
Source: Nielsen,2012. Nielsen Consumer Confidence Index Survey 2011

**Exhibit 5 – The Top Ten Economies With Fastest Growth in the World, 2001-2010
(Average annual GDP growth)**

Country	2001-10
Angola	11,3%
China	10,5%
Myanmar	10,3%
Nigeria	8,9%
Ethiopia	8,4%
Kazakhstan	8,2%
Chad	7,9%
Mozambique	7,9%
Cambodia	7,7%
Rwanda	7,6%

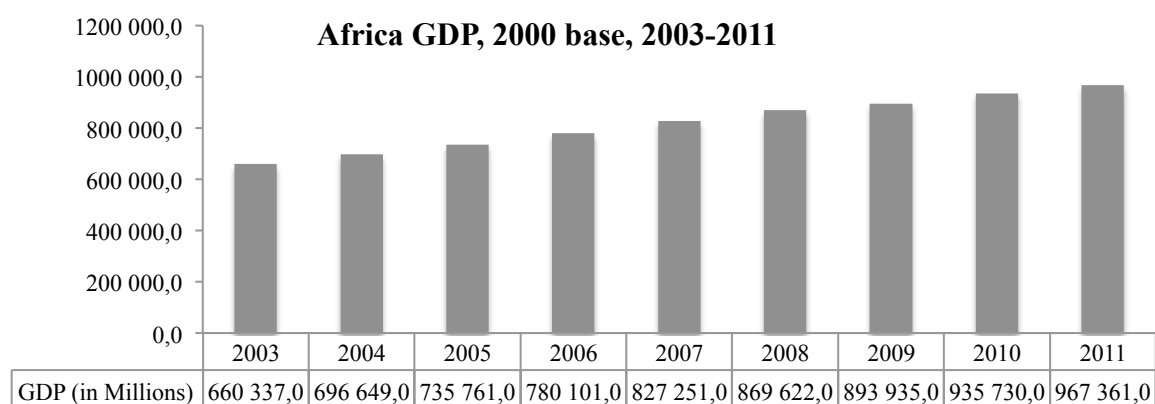
Source: Ernst & Young, 2012. África attractiveness survey 2011³⁸

Exhibit 6 – Africa Population, 2005-2011



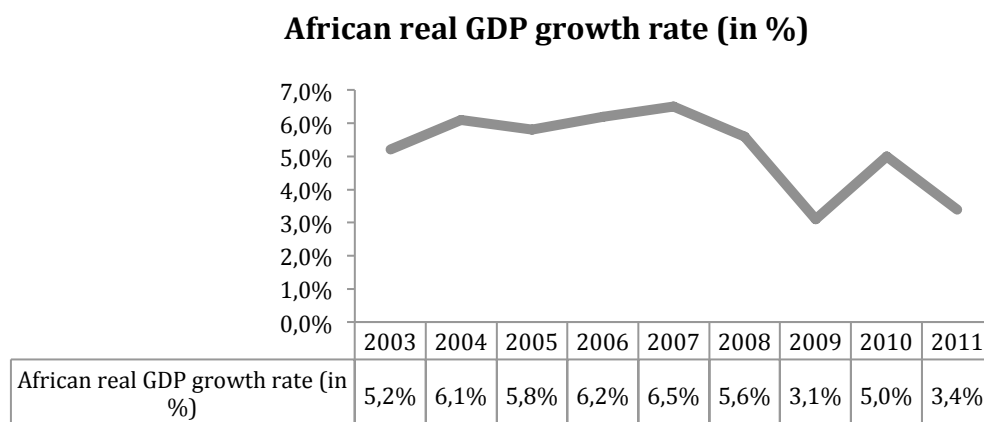
Source: United Nations Development Program, 2012.

Exhibit 7 – Africa GDP, 2000 Base, 2003-2011



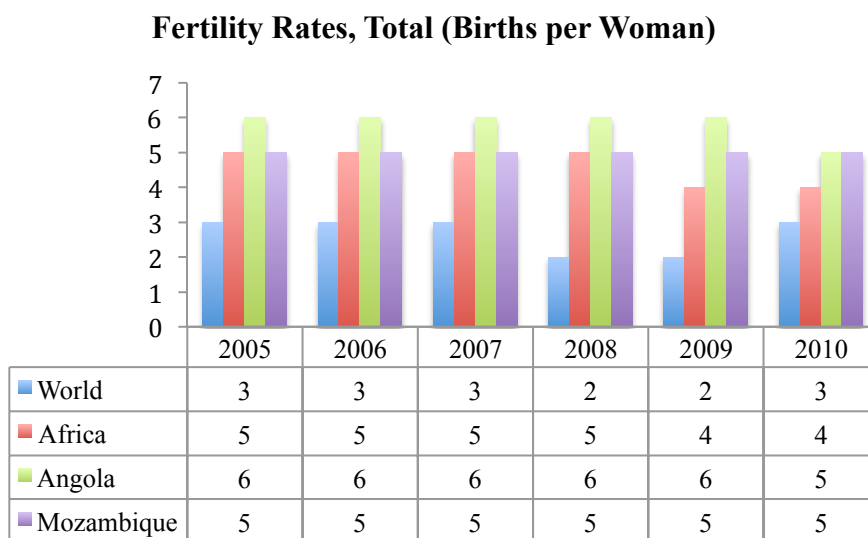
Source: World Bank 2012, Africa Development Indicators 2003-2011.

Exhibit 8 – Africa Real GDP Growth Rate, 2003-2011



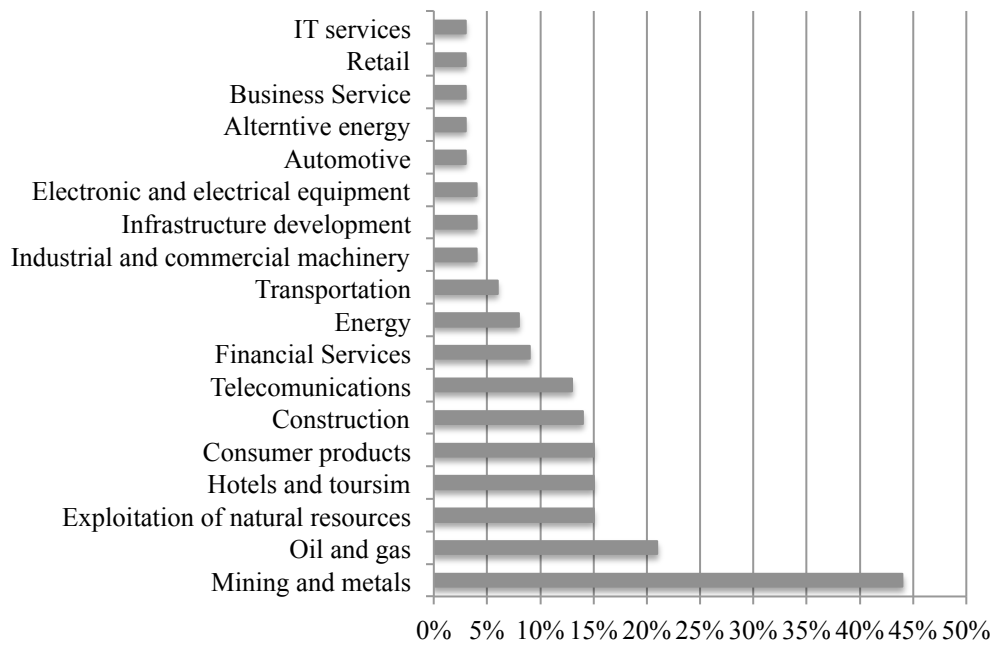
Source: World Bank 2012, Africa Development Indicators 2003-2011

Exhibit 9 – Africa Fertility Rate, Total Births per Woman, 2005-2010



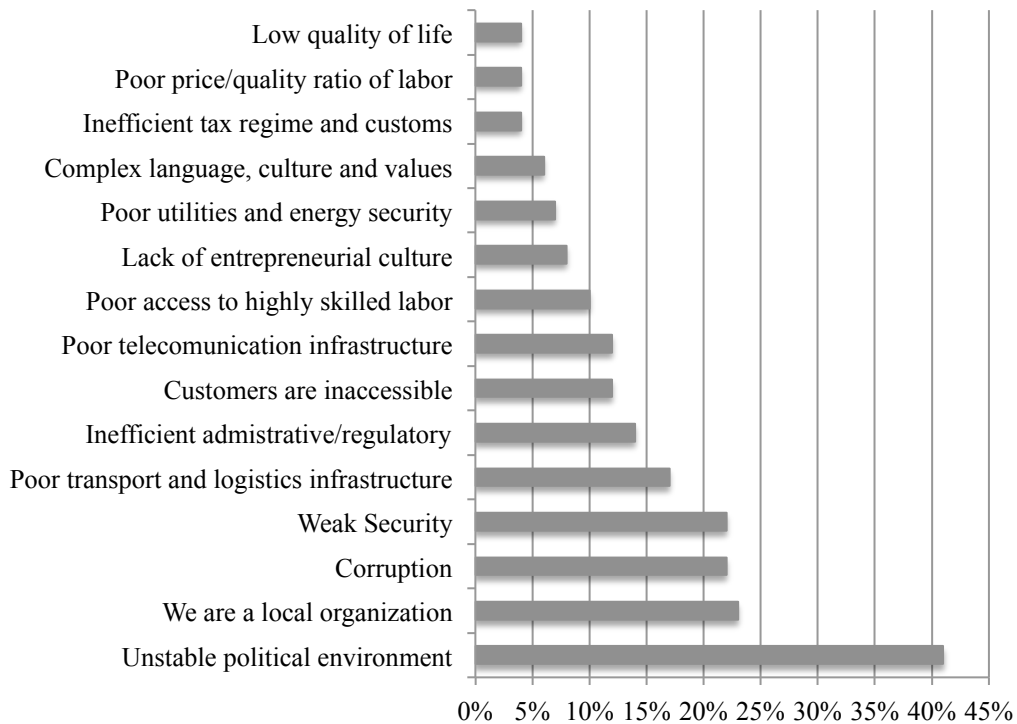
Source: World Bank, 2012. African Development Indicators 2005-2010

Exhibit 10 – Top Sectors in Africa, 2010-2011



Source: Ernst & Young, 2012. Africa Attractiveness Survey, 2011

Exhibit 11 – Main Barriers in Africa, 2010-2011



Source: Ernst & Young, 2012. Africa Attractiveness Survey, 2011

Exhibit 12 – Trade Zones in Africa, 2011



Arab Maghreb Union – Algeria, Lybia, Mauritania, Morocco and Tunisia

Economic Community of West African States – Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo

Economic Community of Central African States – Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon

East African Community – Kenya, Uganda, Burundi, Rwanda, Tanzania

Southern African Development Community – Angola, Botswana, D.R.Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia, South Africa, Seychelles

Source: Ernst & Young, 2012. Africa Attractiveness Survey, 2011

Exhibit 13 – SADC Objectives

- Achieve development and economic growth, alleviate poverty, support the socially disadvantaged through regional integration;
- Stimulate trade in goods and services among member countries
- Evolve common political values, systems and institutions
- Promote and defend peace and security
- Promote self-sustaining development and the interdependence of Member States;
- Achieve complementarity between national and regional strategies and programs;
- Promote and maximize productive employment and utilization of resources of the Region;
- Achieve sustainable utilization of natural resources and effective protection of the environment; Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the Region.

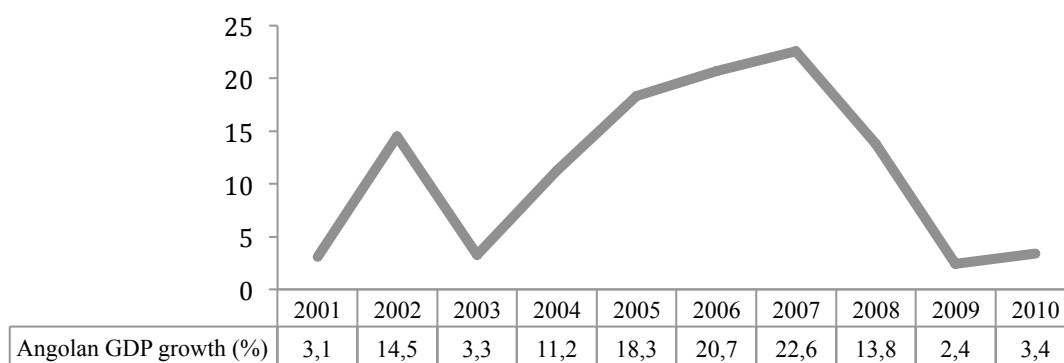
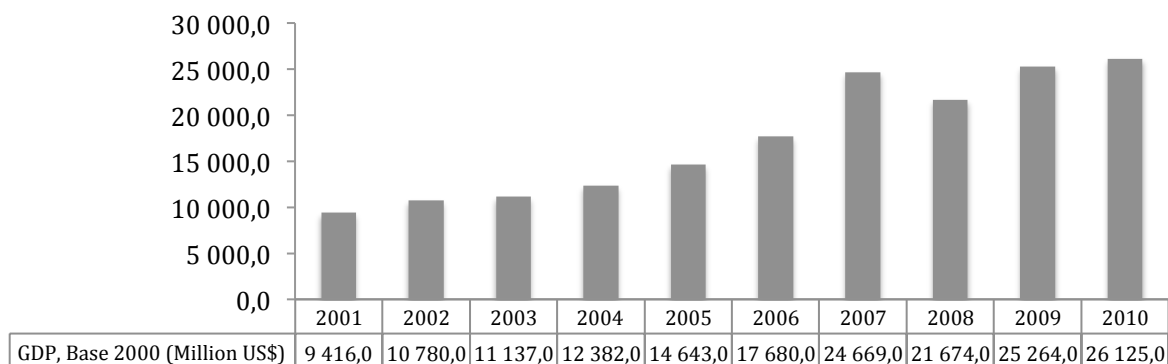
Source: Southern African Development Community 2011

Exhibit 14 – SADC Indicators, 2005-2010 VS Portugal, 2011

	Population, in Millions 2005 2010	GDP, constant year 2000 US\$ in millions 2005 2010	GDP Growth Annual % 2005 2010	GDP/Capita, constant year 2000 US\$ 2005 2010	Inflation, consumer prices Annual % 2005 2010	Life expectancy at birth, total in years 2005 2010	Human Development Index 2005 2010	Ease of Doing Business (rank) 2006 2010
Angola	16,489 19,081	14 644 26 126	18 3	888 1 369	23 14,5	48,6 50,7	0,445 0,482	135 169
South Africa	47,198 49,991	160 367 187 640	5 3	3 398 3 753	3 4	51,1 52,2	0,599 0,615	28 34
Botswana	1,876 2,007	7 277 8 408	2 7	3 880 4 190	9 7	50,6 53,3	0,601 0,631	40 45
D.R.Congo	57,420 65,966	5 303 6 691	8 7	92 106	21 N.A.	47 48,1	0,260 0,282	155 182
Lesotho	2,066 2,172	860 1 076	3 6	417 496	3 4	44,3 47,6	0,417 0,446	97 130
Malawi	12,822 14,901	1 924 2 758	3 7	150 185	15 7	49 53,5	0,351 0,395	96 132
Mauritius	1,243 1,281	5 326 6 636	1 4	4 284 5 181	5 3	72,5 73,2	0,703 0,726	23 17
Mozambique	20,770 23,391	6 483 8 972	10 7	312 384	7,2 12,7	48,1 49,8	0,285 0,317	110 135
Namibia	2,080 2,283	4 972 6 155	3 7	2 391 2 696	2 4	58,7 62,2	0,593 0,622	33 66
Seychelles	0,0829 0,0865	598 760	7 7	7 209 8 788	1 -2	72,6 73,4	0,766 0,771	N.A 111
Swaziland	1,017 1,056	1 691 1 911	2 2	1 663 1 811	5 5	45,9 48,4	0,493 0,520	N.A 115
Tanzania	38,831 44,841	14 317 19 965	7 7	369 445	5 6	53,4 57,4	0,420 0,461	140 131
Zambia	11,462 12,926	4 093 5 587	5 8	357 432	18 9	44,4 48,5	0,394 0,425	67 90
Zimbabwe	12,571 12,572	4557 4032	-6 9	363 321	302 N.A.	44.0 50	0,347 0,364	126 159
SADC (2010)	252,554	-	6	-	6,1	-	-	-
Portugal (2011)	10,367	122 952	-2	11 559	4	80	0,795	31

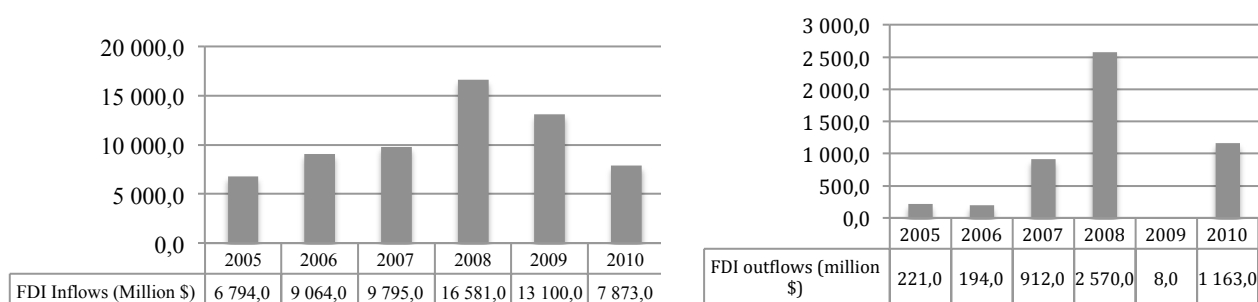
Source: United Nations Development Program, 2012. International Human Development Indicators
Doing Business, 2012. Ease of Doing Business Report, 2005;2011

Exhibit 15 – Angola GDP Base 2000, and GDP Growth, 2001-2010



Source: World Bank, 2012. African Development Indicators, 2005-2010

Exhibit 16 – Angola FDI Inflows and Outflows, 2005-2010



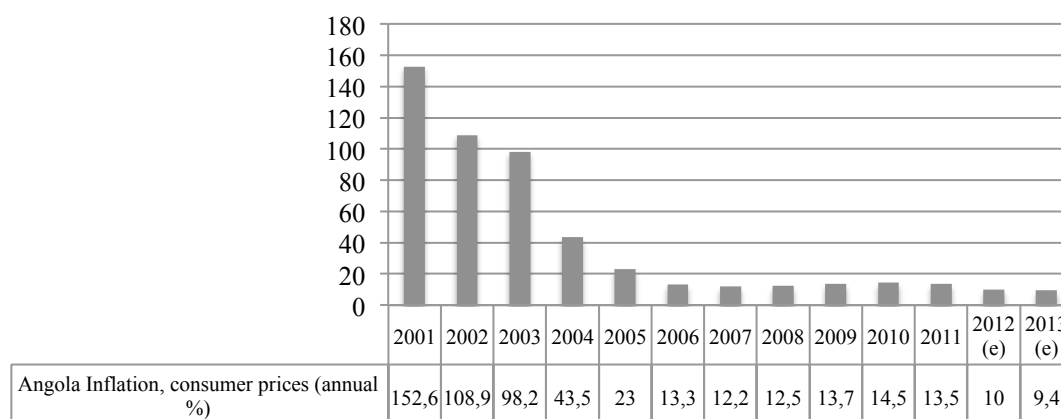
Source: UNCTD, 2012. Foreign Direct Investment in LCD's, 2001-2010

Exhibit 17 – Top 5 FDI Investors and Sectors in Angola, 2003-2011

Top 5 countries in new FDI projects (2003-2011)	Top 5 countries for investors in new FDI projects, by job creation (2003-2011)	Top 5 sectors of new FDI projects (2002-2011)	% on the sector's contribution to the total of the projects
Portugal	United States of America	Financial Services	42,6%
United States of America	Portugal	Coal, petroleum and natural gas	8,9%
United Kingdom	Germany	Beverages	6,0%
Spain	China	Business Services	6,0%
South Africa	United Kingdom	Transports	5,0%

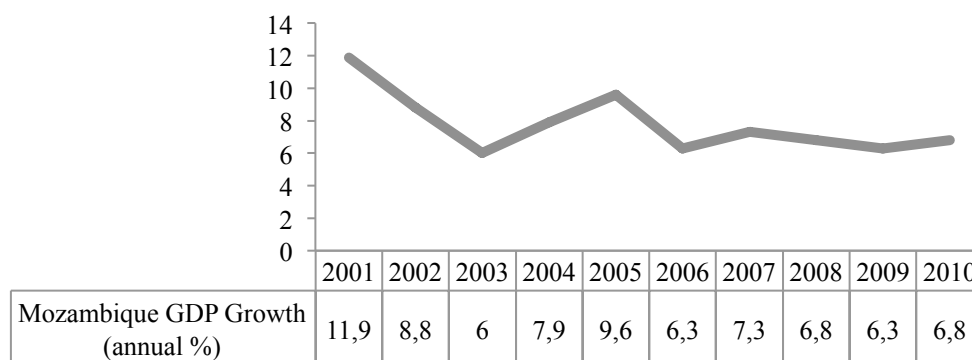
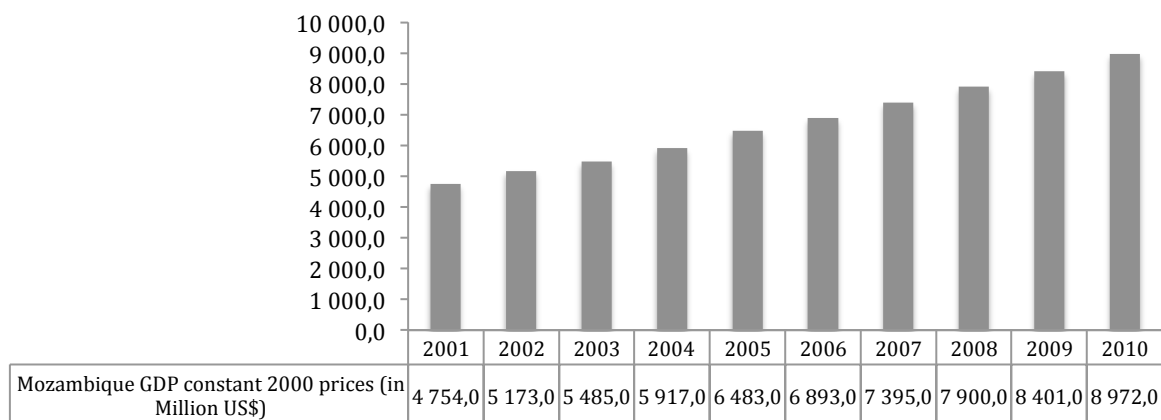
Source: Ernst & Young 2012. Study on the activity in Africa “Construindo Pontes” 2012

Exhibit 18 – Angola Inflation Consumer Prices, Annual %, 2001-2013



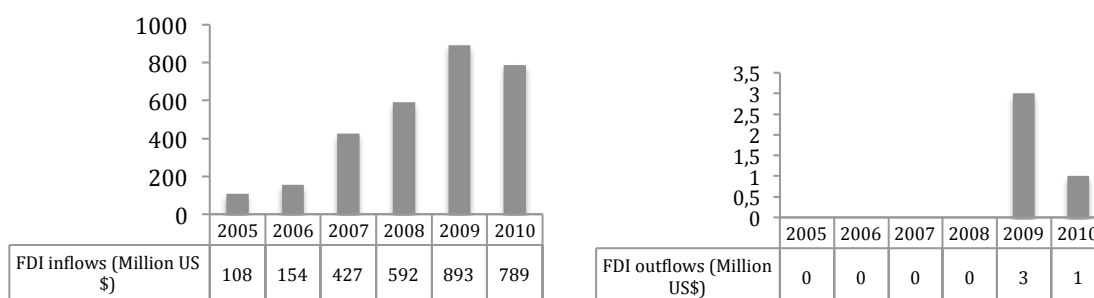
Source: United Nations Development Program, 2012. International Human Development Indicators

Exhibit 19 – Mozambique GDP, Constant 2000 Prices and GDP Growth, 2001-2010



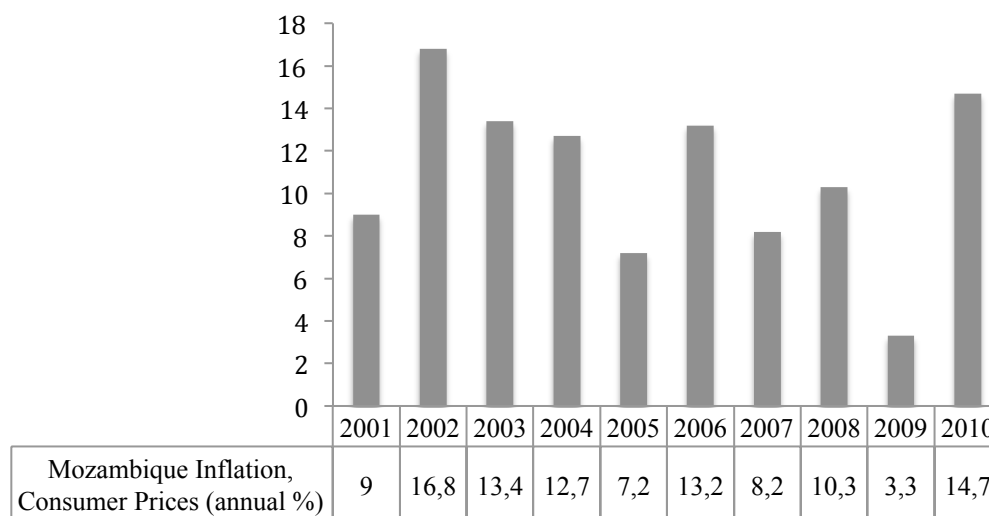
Source: World Bank, 2012. Africa Development Indicators, 2001;2010

Exhibit 20 – Mozambique FDI Inflows and Outflows, 2005-2010



Source: UNCTD, 2012. Foreign Direct Investment in LCD's, 2001-2010

Exhibit 21 – Mozambique Inflation, Consumer Prices 2001-2010



Source: World Bank, 2012. Africa Development Indicators, 2001-2010

Exhibit 22 – Top 5 FDI Investors and Sectors in Mozambique, 2003-2011

Top 5 countries in new FDI projects (2003-2011)	Top 5 countries for investors in new FDI projects, by job creation (2003-2011)	Top 5 sectors of new FDI projects (2002-2011)	% on the sector's contribution to the total of the projects
South Africa	Portugal	Coal, petroleum and natural gas	22,9%
Portugal	India	Food and beverage and tobacco	11,5%
United Kingdom	United States of America	Metal Industry	11,5%
India	South Africa	Construction	6,3%
Brasil	United Kingdom	Financial Services	6,3%

Source: Ernst & Young 2012. Study on the activity in Africa “Construindo Pontes” 2012

Endnotes

¹ CMVM is the Portuguese Securities Market Commission in charge of supervising and regulating securities and other financial instruments markets

² Sumol+Compal 2012. *Informação ao Mercado*. [Online] Available at: http://www.sumolcompal.pt/app/uploads/calendario_financeiro/6956694814f5f0c8c17f5a.pdf [Accessed 10 October 2012]

³ SADC is an inter-governmental organization. Its goal is the further socio-economic cooperation and integration among 14 African States

⁴ Foreign direct investment is the long-term investment made by a company in terms of technology, management skills, brands or physical assets in another country. It could then be used to replace exports from the home country. Commonly foreign direct investment includes mergers & acquisitions, building new facilities or Greenfield investments.

⁵ Sumol+Compal, 2012 Annual Management Report 2011. [Online] Available at: <http://en.sumolcompal.pt/investidores/relatorioscontas> [Accessed 12 October 2012]

⁶ The non-alcoholic drinks industry includes different product categories such as soft drinks juice (orange, pineapple, lemon, etc.), nectars, colas, drinks from extracts of lemon-lime, drinks based on tea, tonic and bitter (bitter drinks) energy drinks, flavoured or fruity waters

⁷ Sumol+Compal 2011 [online] Available at: <http://www.sumolcompal.pt/quemsomos>

⁸ Horeca: Sales channel which includes Hotels, Restaurants and Cafés

⁹ Sumol+Compal, 2012. Annual Management Report 2011 [Online] Available at: <http://en.sumolcompal.pt/investidores/relatorioscontas> [Accessed 13 October 2012]

¹⁰ Sumol+Compal, 2012 Annual Management Report 2011. [Online] Available at: <http://en.sumolcompal.pt/investidores/relatorioscontas> [Accessed 12 October 2012]

¹¹ Sumol+Compal 2012 [online] Available at: <http://www.sumolcompal.pt/unidadesnegocio> [Accessed 12 October 2012]

¹² Compal Essencial, 2012. Doses de Fruta. [Online] Available at: <http://www.compalessencial.pt/#> [accessed 19 October 2012]

¹³ Probeb, 21012. Legislação [Online] Available at: <http://www.probeb.pt/conteudo/Legislação/-/27> [Accessed 15 November 2012]

¹⁴ Autoridade de Segurança Alimentar e Económica (ASAE) is the administrative authority specialized in the areas of food security and economic monitoring. Is responsible for assessing and communicating risks in the food chain, as well as the discipline of economic activities

¹⁵ World Bank, 2012. World Economic Indicators 2011. [Online] Available at: <http://databank.worldbank.org/ddp/home.do> [Accessed 15 November 2012]

¹⁶ Economico, 2012. “Portugal fecha 2011 com desemprego recorde de 13,6%” [Online] Available at: http://economico.sapo.pt/noticias/portugal-fecha-2011-com-desemprego-recorde-de-136_137061.html [Accessed 16 November 2012]

¹⁷ Informa D&B, 2012. Non-Alcoholic Beverages Sector Analysis. [Online] Available at: http://www.informadb.pt/estudossectoriais/sectores-portugal2012/Fev_SPb-Bebidas_ao_alcoolicas.pdf [Accessed 15 November 2012]

¹⁸ Economico, 2012. “Famílias perdem 305 Euros no rendimento disponível” [Online] Available at: http://economico.sapo.pt/noticias/familias-perderam-305-euros-no-rendimento-disponivel_141636.html

¹⁹ Probeb, Associação Portuguesa de Bebidas Refrescantes Não-Alcoolicas. [Online] Available at: <http://www.probeb.pt/conteudo/Condições-para-a-competitividade/-/42> [Accessed 19 October 2012]

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- ²⁰ Probeb, 2012. Enquadramento do Sector [Online] Available at: <http://www.probeb.pt/conteudo/Enquadramento-do-Sector/-/29> [Accessed 14 November 2012]
- ²¹ Expresso, 2012. “Subida do IVA aumenta refrigerantes, café e comida para bebé”, 2011. [Online] Available at: <http://expresso.sapo.pt/subida-do-iva-aumenta-refrigerantes-cafe-e-comida-para-bebe=f697118> [Accessed 14 November 2012]
- ²² Sumol+Compal, 2012 Annual Management Report 2011. [Online] Available at <http://en.sumolcompal.pt/investidores/relatorioscontas> [Accessed 12 October 2012]
- ²³ Económico, 2012. “Sumol+Compal fecha ano com 15% das vendas ao estrangeiro”. Económico, 2011 [online] Available at: http://economico.sapo.pt/noticias/sumolcompal-fecha-ano-com-15-das-vendas-ao-estrangeiro_126883.html [Accessed 3 November 2012]
- ²⁴ Sumol+Compal, 2012. Annual Management Report 2011 [Online] Available at: <http://www.sumolcompal.pt/investidores/relatorioscontas> [Accessed 20 October 2012]
- ²⁵ Sumol+Compal, 2012. Annual Management Report 2011 [Online] Available at: <http://www.sumolcompal.pt/investidores/relatorioscontas> [Accessed 20 October 2012]
- ²⁶ Sumol+Compal, 2012. Annual Management Report 2011 [Online] Available at: <http://www.sumolcompal.pt/investidores/relatorioscontas> [Accessed 20 October 2012]
- ²⁷ Ernst & Young’s, 2012. Africa attractiveness Survey 2011, [Online] available at [http://www.ey.com/Publication/vwLUAssets/2011Africa_Attractiveness_Survey/\\$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf](http://www.ey.com/Publication/vwLUAssets/2011Africa_Attractiveness_Survey/$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf) [Accessed 15 November 2012]
- ²⁸ United Nations, 2012. Population Division, Population Estimates and Projection Section [Online] Available at: http://esa.un.org/wpp/Analytical-Figures/htm/fig_12.htm [Accessed 15 November 2012]
- ²⁹ Interview to the Director of International Operations Department of Sumol+Compal
- ³⁰ Ernst & Young’s, 2012. Africa attractiveness Survey 2011, [Online] available at [http://www.ey.com/Publication/vwLUAssets/2011Africa_Attractiveness_Survey/\\$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf](http://www.ey.com/Publication/vwLUAssets/2011Africa_Attractiveness_Survey/$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf) [Accessed 15 November 2012]
- ³¹ CIA, 2012. World Fact Book [Online] Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ao.html> [accessed 15 November 2012]
- ³² Ernst & Young, 2012. Africa Attractiveness Survey, 2011. [Online] Available at: [http://www.ey.com/Publication/vwLUAssets/2011__Africa_Attractiveness_Survey/\\$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf](http://www.ey.com/Publication/vwLUAssets/2011__Africa_Attractiveness_Survey/$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf) [Accessed 15 November 2012]
- ³³ The *Doing Business Project* provides objective measures of business regulations and their implementation through 185 economies. Economies are ranked on their ease of doing business, from 1 – 185. A high ranking on the ease of doing business index means the regulatory environment is more favourable to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics. Doing Business Rank, 2011 Available at: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB11-FullReport.pdf> [Accessed 17 October 2012]
- ³⁴ The Corruption Perceptions Index ranks countries/territories based on how corrupt their public sector is perceived to be. A country/territory’s score indicates the perceived level of public sector corruption on a scale of 0 - 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean. A country's rank indicates its position relative to the other countries/territories included in the index. Transparency International, 2012. Corruption Perception Index 2011 [Online] Available at: <http://www.transparency.org/cpi2011/results/> [Accessed 20 October 2012]
- ³⁵ CIA, 2012. “World Fact Book” [Online] Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/mz.html> [accessed 13 October 2012]

³⁶ PLMJ, 2012. Mozambique Investment Guide. [Online] Available at:
http://www.plmj.com/xms/files/Guias_Investimento/2012/Guia_de_Investimento_em_Mocambique_final.pdf [Accessed 13 October 2012]

³⁷ The Consumer Confidence Index Survey measures the level of optimism that consumers have about the performance of the economy. The highest the value, the highest is the confidence.

³⁸ Ernst & Young's 2011 Africa attractiveness survey reflected Africa's attractiveness for foreign investors, perceptions and outlook of Africa across a representative panel of 562 international decision-makers

2. TEACHING NOTES

2.1 Introduction

Sumol+Compal International Strategy case was prepared for class discussion purposes and not as a source of primary data or an illustration of effective or ineffective management decisions. The **Sumol+Compal International Strategy Case** should be made available to students and contains a list of exhibits to support the content of the case. **Sumol+Compal International Strategy Teaching Notes** is destined to instructors only and to provide the recommended approach to the case.

2.2 Synopsis

The history of Sumol+Compal Group dates back to 1954 when Refrigor produced the first fruit juice soft drink in Portugal. Meanwhile Compal, which started operating in the 50's was becoming well known among Portuguese consumers for the quality of its concentrated tomato products. Both companies crossed paths in 2005 and in 2009 and after a merger process started operating as Group. It was the birth of Sumol+Compal. Present in the high rotation beverages industry with a product portfolio that could be segment into Nutrition Drinks, Soft Drinks, Water and Beer, the Group's most important brands were positioned in the soft drinks market. In 2010 the Group was market leader in the soft drinks market.

Present in more than 69 countries the Group increased its turnover from foreign markets by 32.6% with most of its exports to Africa. Its products were well accepted especially in Angola, which represented the most important destination. The African market had great potential and opportunity for the maximization of out of international activities and to counter the effects of the economic crisis felt in the Portuguese and European markets. The Group believed that operations in this country could be a success as a result of a longstanding relationship in foreign trade activities between both parties.

The intention to move from simple exportations to direct investment in that continent had already been demonstrated for Angola and Mozambique, the International Operations Department had been studying the expansionary move for a few years and local production was eminent. It was a matter of what would be the best strategy to address that market through local production. The existence of market, the trade relation and partnerships built over the years and the presence of suitable conditions for this strategic advancement would meet the Group's objectives.

Once Africa was defined as a priority market, more specifically the SADC countries. It was necessary to present the best approach strategy and support all that decision: was there a market big enough for more than one FDI project? Were the chosen countries the right ones? Which countries to supply?

2.3 Suggested Assignment Questions

The suggested assignment questions for the case study could be divided in two parts, part I addresses the Group situation in the domestic market while part II addresses the Group's international involvement. Students should read the case and be prepared to discuss the following questions:

Part I – Domestic Market

1. How would you characterize the environment in which Sumol+Compal operated in 2011? What was the current situation of Sumol+Compal in the Portuguese Soft Drinks Industry?
2. Sumol+Compal achieved the leader position in the Portuguese Soft Drinks Market and international operations performed quite well during the last years. Which do you consider to be the main competitive advantages of Sumol+Compal in Portugal? And in international markets?

Part II – International Involvement

3. Sumol+Compal had already established a presence in international markets through exports. The new objective focused on creating FDI in Africa. Thus, from the exportations to the implementation of the FDI project there was a sequence that the Group needed to follow. Referring to what you consider to be the FDI project sequence, which ones were the considered key pre-requisites for this move? What was the strategic relevance of each one of them?
4. The Group defined Africa as a priority market for the coming years; to be more specific the Group had a particular interest in the SADC region. Its intention was to supply the region with local production in one or more countries of the community. What were the main drivers of that interest in Africa? What are the challenges and opportunities you consider relevant for the FDI project?
5. What were the factors influencing the decision to produce locally in Angola and/or Mozambique? Please analyse those facts.
(Considering the regional SADC market)?
6. Angola and Mozambique are former Portuguese colonies. How does it influence the decision and election of a country to have local production? How would you define the cultural, administrative, geographic and economic aspects from a proximity point of view? (Please use of the CAGE framework)

2.4 Teaching Objectives

The case study teaching objectives are the following:

1. To give students a grasp of the special aspects of managing an international company, the challenges faced when operating in a multitude of markets and the opportunities that emerge from a firm expansion
2. To highlight to students the motivation and attitudes needed today for international managers to achieve a successful internationalization strategy, the development of skills to support the going abroad decision, the recognition of market potential and the existence of resources and capabilities
3. To have students to recognise the main competitive advantages both in domestic and foreign markets given the differences in terms of economic, political, social and legal environments
4. To help students to develop a comprehensive and strategic overview of the industry in the home country and the opportunities and threats that emerge from exports destination countries
5. To illustrate to students the advantages of local production in Africa as the opportunities emerging from the integration in free trade areas

2.5 Use of the Case

The Case allows the revision and analysis of the expanding process for the international activity of a company, considering the defined short and long-term objectives as well as the company's capacities and resources, in the context of a stagnated economy and market in the home country. It also intends to help students to understand the process of a firm's internationalization moves. It addresses topics such as industry analysis, market opportunity evaluation, international strategy processes and to reveal the importance of local partnerships and influence of culture, tradition and relations with the country of destination.

The topics covered will make the Case adequate in both undergraduate and master level degree in business administration courses. As the entire case is about operations and activities across borders it is also suitable to use it in international industry analysis, strategic management or managing in a global context courses.

2.6 Relevant Theory

The case *Sumol+Compal International Strategy* addresses the topic of international expansion, specifically the evolution of the international strategy towards the demanding decision to go beyond exports. A set of theoretical frameworks and models was used on the development of the Case and respective Teaching Notes. The following list of books and academic articles are recommended as supporting material for a profound understanding of the different topics of the case:

- PESTEL and SWOT Analysis - Johnson, G. & Scholes, K., 2002. *Exploring Corporate Strategy*, 6th edition, Prentice Hall.
- Firm's Competitive Advantages - Barney, Jay B., 1995 "Looking inside for competitive advantage", *Academy of Management Executive*. pp. 49-61
- Evolution and factors influencing the entry mode decision - Root, R. Root, 1994, *Entry Strategies for International Markets*, Revised and Expanded, Lexington Books
- CAGE Model - Ghemawat, P. (2001) "Distance Still Matters", *Harvard Business Review*, September 2001. pp. 137 – 147

2.7 Analysis and Discussion

The analysis and discussion of the case corresponds to the suggested assignment questions and therefore is divided in two parts. It is structured to be lecture in a 90 minutes time frame divided over the questions.

1. How would you characterize the environment in which Sumol+Compal operated in 2011? What was the current situation of Sumol+Compal in the Portuguese Soft Drinks Industry? (Suggested time spent: 10 minutes)

For this question it is suggested an approach to the analysis of the organization and to the environment in which Sumol+Compal was operating in order to support and highlight the main causes that in part gave rise to the intention for making direct investments in foreign countries, to allocate part of the production and to deploy resources to markets others than Portugal. Instructor should approach this question making use of the PESTEL¹ and SWOT² frameworks.

In 2011 Portugal was in a situation of economic crisis like in much of the world economies the effects of such crisis had already been felt for a few years. The economic slowdown affected

¹ Johnson, G. & Scholes, K., 2002. *Exploring Corporate Strategy*, 6th edition, Prentice Hall, pp. 99-103

² Johnson, G. & Scholes, K., 2002. *Exploring Corporate Strategy*, 6th edition, Prentice Hall, pp. 132-135

diverse industries. In relation to the external environment in which Sumol+Compal operated in, on the political level it could be considered as politically stable and to be a democratic constitutional state with a democratic political organization and member of the European Union.

As a member of the E.U. the Portuguese soft drinks industry was subject to European guidelines supplemented by specific domestic legislation so that together they would ensure the quality and food-safety of products produced by this industry. In addition to the law applicable to the non-alcoholic beverage market in Portugal, this sector had high rates of supervision. ASAE constantly supervised the quality of products and raw materials at all stages of the production and distribution process. This allows us to conclude that the industry was perfectly legislated by the competent authorities.

On economic level Portugal was struggling to overcome the economic recession phase in which it was in. The main economic indicators revealed the economic downturn that inevitably affected the soft drinks industry. Driven by the economy fall the propensity to consume declined, families had less money to spend and the purchase decision process was more elaborated and evaluated. The consumer confidence was also in a downward cycle. These economic conditions forced the decline of 4,8% from 2010 to 2011 in the market value for soft drinks.

In terms of the Group situation in the market, despite the decrease in the domestic turnover (**Exhibit 1**) the leadership in the soft drinks segment was maintained. The Group had a wide range of products available through a vast distribution network. Sumol and Compal were two brands perfectly known among Portuguese consumers, its history and legacy together with the perceived innovation of the products created strong brand awareness. However, Sumol+Compal operations as a group were relatively recent and that could pose some difficulties for the business. Even with a strong distribution network with clients in the HoReCa, RAM and C&C channels it would not allow the direct communication with the final consumer.

Furthermore, the growing concern about healthy lifestyle, the emergence of new consumption moments for those people with lack of time and the products' quality were factors that more than drivers for new products development, also represented opportunities for the Group. Nevertheless, the economic conjecture and consumer new trends and habits gave distribution brands the chance to increase their share mainly in the in-home consumption, due to the fact that distribution brands were available at retailers. All the recession felt posed a threat regarding production and raw materials costs.

When applied together, the PEST and the SWOT analysis are very useful tools providing in-depth insights of how a company is operating within an industry bearing in mind the external macro environment and the internal and external factors as they are favourable or not. **Table 1 and 2** summarize the important information for question 1 and should be used as a reference in class discussion.

Table 1 – PESTEL ANALYSIS

Political
<ul style="list-style-type: none"> • Republic based on democratic law • Democratic political organization • In April 2011 Portugal appealed for economic and financial assistance from the European Commission, International Monetary Fund and European Central Bank
Economical
<ul style="list-style-type: none"> • Inflation rate increased in 2011 reaching 3,8% • GDP registered a decrease of 1,5% when compared to 2010 • Unemployment rate was one of the highest in the Eurozone • It was forecasted an increase on the soft drinks VAT from 6% to 23% • Increase of energetic and raw material costs for the soft drinks industry • Soft Drinks industry market value decreased by 4,8%
Social
<ul style="list-style-type: none"> • Price as a central factor in purchasing decision • Strong social value of the distribution brands • Emerging concerns regarding a healthier lifestyle, preference for healthier products
Technological
<ul style="list-style-type: none"> • Wide dissemination of personal computers, use of internet with particular emphasis for social networks • Strong trend to use social networks to establish contact with consumers • Use of information systems to analyse buying habits
Environmental
<ul style="list-style-type: none"> • Weather in Portugal is propitious to production of many raw materials used in the industry • The climatic changes are likely to influence the ability of national supply of fruits and vegetables

Source: Case Writer

Table 1 – PESTEL ANALYSIS (continuation)

Legal
<ul style="list-style-type: none"> • The soft drinks sector is legally framed by European and Domestic specific rules • European directives are complemented by specific domestic legislation • Products, production process and distribution are regularly inspected by ASAE • The technical and sanitary regulations of soft drinks specifies the allowed manipulations and processes of control required for proper development of products

Source: Case Writer

TABLE 2 – SWOT ANALYSIS

Strengths	Weakness
<ul style="list-style-type: none"> • Extended distribution network • Wide and complete portfolio • Brands recognized for quality and innovation • Soft drinks market leader • Group with great experience in the industry 	<ul style="list-style-type: none"> • Inability to communicate directly with the final consumer • Cultural definition as a group relatively recent • Prices practiced above the ones of distribution brands
Opportunities	Threats
<ul style="list-style-type: none"> • Tendency of customers to look for products rich in nutrients and fruit • Increased awareness of the need for a healthier diet • Lack of time for many consumers provide new moments of consumption 	<ul style="list-style-type: none"> • Weak economic environment • Increased costs of raw materials and energy costs • Increased preference for distribution brands

Source: Case Writer

2. Sumol+Compal achieved the leader position in the Portuguese Soft Drinks Market and international operations performed quite well during the last years. Which do you consider to be the main competitive advantages of Sumol+Compal in Portugal? And in international markets? (Suggested time spent: 10 Minutes)

In this question it important that students use the frameworks from question 1 to support their conclusion upon the competitive advantages.

An accurate acknowledgement of a firm's internal strengths and weaknesses allows for a better exploitation of identified opportunities and minimization of possible threats, a company able to do so is more likely to have competitive advantage over other players, making the best use of internal resources and capabilities³. Through the analysis of internal capabilities and external environment, students must determine what are the competitive advantages of Sumol+Compal leading to the position of market leader in the soft drinks industry.

The history of the company as a Group is relatively recent, however both companies have a long background as far as the Portuguese market is concerned. Even if cultural differences of former companies could pose a threat to the business, the shared knowledge and resulted synergies were certainly very promising.

With a common history of more than 50 years, the Group had a strong Brand in the Portuguese market. The experience and knowledge from pre-merger companies was kept and improved. The main sub-brands were perfectly introduced in the market, the quality of the products was recognized among the community and the constant development throughout many years of strong and trustful products allowed for the placement of Sumol+Compal products in daily new consumption habits. **Quality** was an attribute attached to Group's products since the early years, and that perceived quality strengthen the position against the competitors, namely distribution brands.

Due to the mission stated to play the lead role in the high rotations beverage market in Portugal and to compete against distribution brands, among other players, **Innovation** was a critical topic that Sumol+Compal managed to outstand. Product innovation led to a continuous construction of a relationship with the consumer for their captivation and loyalty. The launch of new products, new packages and new flavours required constant efforts and resources spent on innovation with the objective of constantly presenting products perfectly adapted to the preferences, needs and some products to the season. As it can be seen in **Exhibit 2**, the Group had a **Wide Portfolio** covering different sub-segments of soft drinks and providing a complete and broad range of products capable to totally satisfy the major part of the consumer's universe. So summarizing, Sumol+Compal competitive advantages in Portugal were:

- Brand
- Quality
- Innovation
- Wide Portfolio

³ Barney, Jay B., 1995 "Looking inside for competitive advantage", Academy of Management Executive. pp. 49-61

As far as the international competitive advantages are concerned it is important to make the bridge between the home country and foreign markets. Most of home country competitive advantages were exported, even if in different dimensions. The wide portfolio allowed the group to reach different markets worldwide with already existing lines of production.

In countries where the presence was not so strong it was an advantage to have the possibility to choose from a vast range of options the product that would fit better the target market and compete better against local players. The quality and innovation worked abroad as differentiation factors. In Africa where local production did not have high quality levels Sumol+Compal products were very appreciated by its quality and innovation in terms of flavours, packages and products available. In a region where the main competition came from imported products in the same or lower competitive condition, being a European product improved its perceived quality. Brand in international markets refers to the lasting presence in part of the most important markets. There were several countries where Sumol+Compal established a perceived image of quality and trustful products. In Africa the Brand's competitive advantage was related to the tradition of Sumol+Compal enhanced by the cultural heritage of Portugal in that continent.

As far as local partners are concerned the Group always looked for a commercial flexibility, in building relationships with them and with the country where they operate, the distribution structure developed upon the vast number of destination countries also allowed for such openness when deciding the strategy and the partnership agreements, Sumol+Compal did not intend to impose their way of doing business, instead, the Group was opened to new commercial approaches. So the international competitive advantages were:

- Portfolio extent
- Differentiation through quality and innovation
- Brand
- Commercial Flexibility

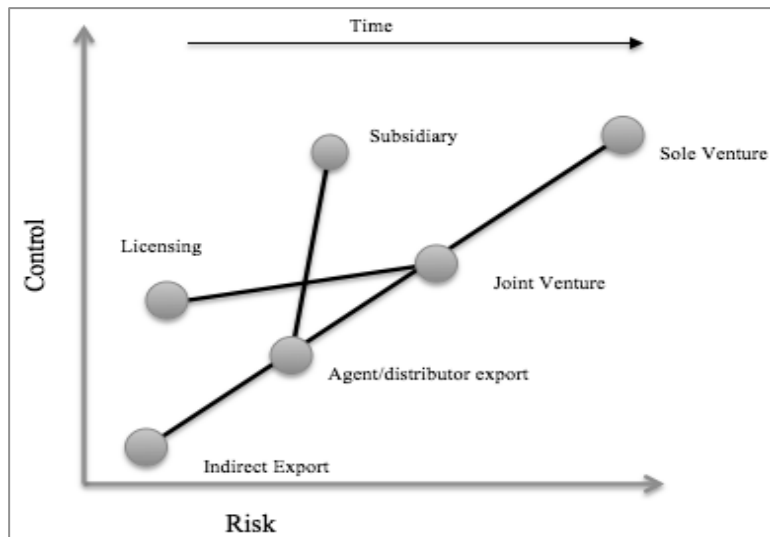
Although these can be considered the competitive advantages in international markets the importance of each of them depends on the maturity of the market.

- 3.** Sumol+Compal had already established a presence in international markets through exports. The new objective focused on creating FDI in Africa. Thus, from the exportations to the implementation of the FDI project there was a sequence that the Group needed to follow. Referring to what you consider to be the FDI project sequence, which ones were the considered key pre-requisites for this move? What was the strategic relevance of each one of them? (Suggested time spent: 15 minutes)

As mentioned in the case Sumol+Compal's internationalization strategy was based on foreign trade and exportations in a worldwide basis. Present in more than 60 countries the group had in Africa the most important destination as well as most part of international efforts and resources focused on. In this question the instructor could ask students their opinion about the decision to go from exportations to FDI, in order to initiate a discussion on the entry strategies for international markets.

Figure 1 - Evolution of a Manufacturer's Decision on Entry Mode

The International Operations Department supervised all the international operations and was in charge of studying the opportunities for an evolution of the Group's international strategy and presence. **Figure 1** offers a description of the typical international evolution of a manufacture company entry mode decision considering the trade off between greater control



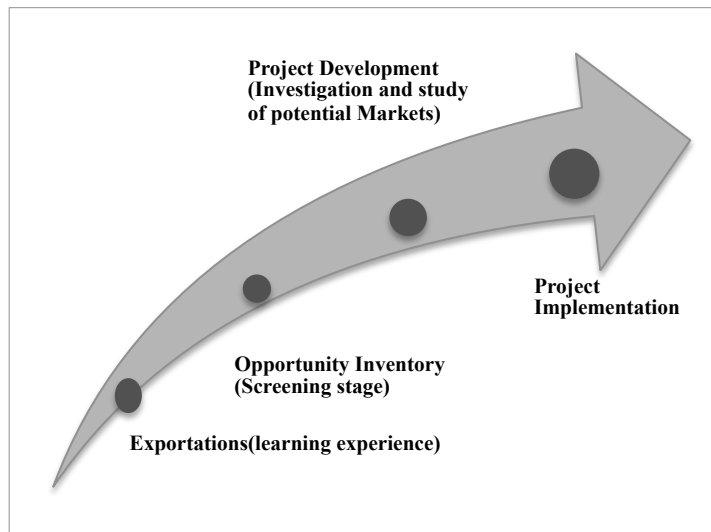
Source: Root, Franklin R., 1994 *Entry Strategies for International Markets, Revised and Expanded*, Lexington Books

and the risk addressed to that control, thus due to size issues there are companies that do not progress beyond exports while other companies have the capacity to move on to joint or sole ventures in local production⁴. However, entry mode decisions are dependent on internal and external factors and companies should continuously monitor external factors in the target countries. As the intention for FDI was to step into the Angolan or Mozambican market the presence in those countries through exports had a great relevance.

⁴ Root, R. Root, 1994, *Entry Strategies for International Markets*, Revised and Expanded, Lexington Books, Chapter 1

In terms of Internationalization Process Sequence (Figure 2) direct exportations could be considered as the first step. Here exportations worked as a learning experience, as it was the internationalization mode defined by the Group to reach external markets in times when the political stability and attractiveness in those markets were not so tempting, the group could minimize the exposure to political and market risks. Thus, those exporting years allowed Sumol+Compal to adopt an exploratory and experimental behaviour and learn

Figure 2 - FDI Project Sequence



Source: Case Writer based on Sumol+Compal information

more on how to do business in Angola and Mozambique and to overcome some ignorance from the lack of international experience. Moreover, direct exportations offered the advantage of having partial or full control over the marketing plan and quicker and more reliable feedback regarding the products marketed.

As described in chapter 1.6 alongside with exportations, phase 2 was to identify the opportunities and potential from each destination country. This phase worked as a preliminary screening to identify markets whose size deserved further investigation and study. Markets where the group could achieve a better position and ad value by producing locally. After that, phase 3 was the concrete study on the possibility for a FDI project for a specific country, the conditions, the legal frameworks, the external environment of the target markets and the potential costs and profits. And phase 4 was the concrete project implementation. Is important to highlight the duration of this sequence especially in African countries were bureaucracy and legal issues are very demanding, as well as time and resource consuming.

During the different phases of the sequence for FDI project, the Group had to ensure the existence of a market. With increasing exportations for those countries the product acceptance was guaranteed, the adaptation of products composition, specific marketing strategies and new packages made it adequate for those markets along with attractive economic indicators analysis. Thus the first pre-requisite, existence of market, was confirmed.

Table 3 – Pre-requisites for a FDI project

Market	Partnerships	Conditions
<ul style="list-style-type: none"> - Product is accepted by consumers - Product is adequate to the market - Stability for the business to proceed - Risks addressed to the project 	<ul style="list-style-type: none"> - Strong - Shared Vision - Helpful and Efficient - Know-How, Financial or distribution 	<ul style="list-style-type: none"> - Human and financial capacities - Ability to timely install the production facility - Capability to identify and place the right workforce

Source: Case Writer based on Sumol+Compal information

The second pre-requisite has to do with local partnerships. Operating in geographic and culturally distant markets required the ability of the Group to deal with different rules, different consumers and competitors. For Sumol+Compal partnerships were a vehicle to get information, operational help and the best use of the local partner skills to better approach the market. Basically partnerships' importance was revealed in the local partner knowledge on the local business environment and the skills to deal with it. The contributions from local partners could be at financial, know-how or distribution level depending on the country and conditions, but in the end local contribution combined with Sumol+Compal should exploit the target market in a more effective way.

The third pre-requisite is about the Group's own capabilities in terms of human and financial resources' availability necessary to make the investment, the capacity to transfer knowledge and resources in the right time to seize the opportunity. The decision of a FDI project carries along with it a great commitment of time and money so defining the model and constantly access internal capabilities should make part of top managers foreign direct investment decision process. Table 3 summarizes the important information about the pre-requisites and should be presented to students as a guideline to get to the strategic relevance of each one.

4. The Group defined Africa as a priority market for the coming years; to be more specific the Group had a particular interest in the SADC region. Its intention was to supply the region with local production in one or more countries of the community. What were the main drivers of that interest in Africa? What are the challenges and opportunities you consider relevant for the FDI project? (Suggested time spent: 15 minutes)

Already present in Africa when the merger took place, this continent importance for international operations increased during the last years. Angola was the most important destination and the SADC was the target region to increase the penetration level.

Considering the SADC as the objective market to supply through a foreign investment project, the countries that Sumol+Compal had under sight were Angola and Mozambique. The signed memorandum with the Angolan company and the constitution of Sumol+Compal Mozambique revealed that both countries had been on the scene for the international operations department, in fact, by 2011 they were on an advanced phase on the FDI project sequence. Although, this question aims to approach the evaluation of the several and often conflicting forces influencing the entry decision mode, in this case it is the evolution of the international strategy for that region since the product was already being marketed. It is important to refer that this question considers the evaluation of factors and drivers of Sumol+Compal group's interest for Africa as a regional market.

During the exportations phase Sumol+Compal assessed the consumer's preferences and behaviour for the African market, learned how the market worked and closely followed the economic growth of Angola and Mozambique, present in the Top 10 countries with fastest growing rates (**Exhibit 5**). Looking to the demographic indicators in Africa, it had high levels of fertility rate, above the world average (**Exhibit 9**) and with an average age of the population at 19,7 years old most part of soft drinks consumers were young people with a life expectancy up to 57 years. In fact, this data represented the consumer potential for the continent.

Furthermore most countries of Africa presented evolution signs in terms of economic growth, development of infrastructures, political stability and social conditions. These demographic fundamentals, together with the signs of economic growth supported by the Group's presence, experience and history in Africa represented the key fundamentals of the developed interest for Africa.

In terms of foreign direct investment in that continent, more precisely in the SADC region, the following 3 topics should be considered as opportunities and challenges to enhance competitiveness and maximization of companies' profits: (Instructor should present the students the 3 topics in order guide them through the suggested approach)

- Resource-seeking
- Market seeking
- Efficiency seeking

Considering the **resource-seeking** topic, Africa was known for its richness in natural resources such as oil, gold and copper. In a resource scarce world the abundance of natural resources

and raw materials is a key factor to achieve cost efficiency for most industries. In Africa Sumol+Compal could have access to new raw material and produce new products that could be then exported to Portugal and Europe. The working age population in Africa was increasingly offering an ample working force at low cost. Meanwhile there was the talent challenge addressed to the availability of a vast working force population. It is important to highlight the fact that a qualified labour force was not a characteristic in Africa and that it required the companies' the ability to expatriate qualified staff.

The **market seeking** topic relied on the growth potential advantage. The social, cultural and economical development of African countries gave place to new markets for certain products and services that had neither place nor growth potential before. Free trade zones also represent a market opportunity for companies operating in those markets. The SADC had great potential for Sumol+Compal operations, by producing inside the community the Group would benefit from the liberalization of intra-trade of goods and services and would get to most part of countries in Africa at lower costs and would supply countries that would not make sense to supply from Portugal. By analysing **Exhibit 14** it is possible to conclude that SADC in fact has consumer and market potential as opportunities. However, the low-income levels in Africa were a challenge for new investors, there was a great number of countries where the population had not the spending power for some products or services.

Given the historical and linguistic links with countries from EU, there were plenty of advantages for each European country to choose former colonies as the target market. Also the proximity and strong trade links with the north of Africa encouraged and strengthen relations between both continents. In the case of Sumol+Compal, Portugal had a strong history and presence in Africa, namely in Angola and Mozambique. Also the official language in Angola and Mozambique was Portuguese language and both countries were strongly linked by a common culture, representing the main opportunities for **efficiency seeking**. The efficiency challenge remains in the corruption and regulatory complexity in doing business in Africa. As seen in **Exhibit 14** most part of countries from SADC were not so well ranked and that could pose some difficulties for the implementation of a project.

5. What were the factors influencing the decision to produce locally in Angola and/or Mozambique? Please analyse those facts. (Considering the regional SADC market)?
(Suggested time spent: 20 minutes)

Regarding the factors that influenced the decision to go ahead with FDI projects in Angola and Mozambique and so to start producing locally in order to supply a regional market, it is important to distinguish between external and internal factors.

The external and internal factors list should be presented to students on the most convenient way, so the instructor could impose the right line of thought. A class discussion should be initiated so students can present their points of view and arguments for each factor. The framework from Figure 3 is useful for class use during the discussion in order to get students to come up with the following suggested approach.

Since it is known the advanced stage in which both Angolan and Mozambican FDI projects were at, the approach to the topics

Figure 3 - Factors in the Entry Mode Decision

should be made over the two countries and based on the analysis of the chapters 1.8, 1.9 and respective exhibits.

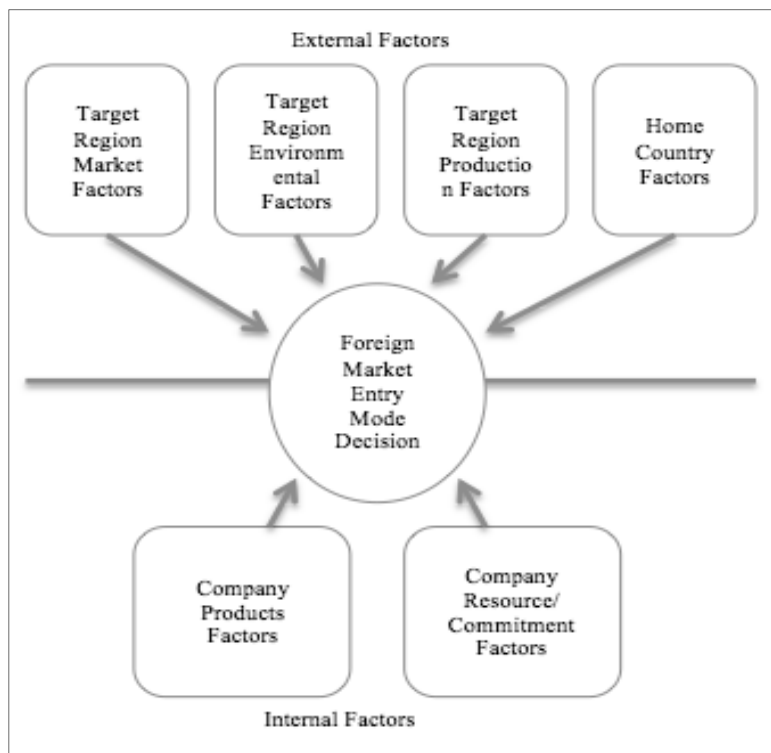
Target Region Market Factors

The target Region market factors refer to the present and projected size of each market. Here the market size can be accessed through the weight of exportations for the group. Angola had been the main destination of

exportations, so the Angolan market revealed to be very important in terms of size,

furthermore the presence of big companies supported the dimension of the soft drinks market and its sales potential. **Exhibit 17** shows that the beverages sector is on the top five sectors of FDI.

In Mozambique even if not so remarkable in terms of dimension and sales potential the Food and Beverage sector was in second place on the sectors receiving more FDI projects from 2002 to 2011. Furthermore in Mozambique Sumol+Compal took ahead specific marketing campaigns and product adaptation revealing the identified potential of that market. However as the Mozambican market was



Source: Root, Franklin R., 1994 *Entry Strategies for International Markets, Revised and Expanded*, Lexington Books

not as big as the Angolan, the first should be seen as a bridge to the SADC market. At this point it is important to underline the strategic importance of Mozambique as a gateway to the target SADC market while Angola, due to its dimension could be seen as a destination of FDI to supply its own market.

Target Region Production Factors

Here the quality, quantity and costs of raw materials, labour, energy and other productive agents play an important role as the quality and costs of supportive infrastructures. By reading chapter 1.9 one can easily identify, in Angola, the richness in natural resources as an attractive factor for Sumol+Compal allowing for the access to new raw materials. Furthermore, the development of complementary industries and infrastructures offered better conditions for the business. Roads and rails allowed for faster and secure transportation and the presence of Portuguese banks would be very useful for the FDI operation.

As far as labour force was concerned, it was expensive and not qualified as it was in most part of African countries. Regarding Mozambique and similarly to Angola, the country was also rich in natural resources and raw materials that could be useful for Sumol+Compal. The development of supportive industries and infrastructures could be seen at a lower pace comparatively to Angola. The access to more qualified workforce was easier although there was also specific hiring legislation. Here is important to highlight the fact that even if both countries were developing their infrastructures and supportive industries the pace in which they were doing so was different, Mozambique was behind Angola in relation to that topic.

Target Region Environmental Factors

Here was where the political, economic and social-cultural attractiveness of the focus country could have a determining influence. With the objective of becoming a key country in Africa, Angola went through several reforms and legislative changes promoting the FDI and the attraction of new investors.

From **Exhibit 16** it is possible to see a decrease in the Angolan FDI inflow due to the crisis felt in the European and American markets since they were the main investors in Angola. However the greater control over inflation and increasing GDP growth rates over the last years had a positive influence together with the socio and cultural changes registered by that country's population that had a greater power of consumption and looked for quality and competitive products. Furthermore the Angolan Government took customs and tariffs measures supporting the FDI versus exports for foreign companies.

Mozambique had been on an evolution path in terms of politically and economical stability since its independence from Portugal. Local government conducted foreign investments incentives as well as tax and custom incentives in a way to attract FDI. Another argument is the stabilization of the legal framework pertaining to the FDI, by reducing costs, time and complexity of bureaucracies and processes for a company legal constitution. However, the legal system still had a long journey to reach the developed countries patterns as courts were to be avoided. Economically, Mozambique presented attractive indicators with increased GDP growth rates (**Exhibit 19**) and increased FDI inflows (**Exhibit 20**) even if the inflation rate was not stable.

Home country Factors

The influences of the country factors are the same for both Angola and Mozambique since the argument here has to do with the market, production and environmental factors in the home country. As already covered in question 1, the situation of the Portuguese market was not the most attractive one, and international operations were gaining relevance for the business. Furthermore, is important to highlight here that the fact of being a large company is also important to take the FDI project, to have the conditions to do so.

Product Factors

Regarding the Product Factors influence is important to make reference to the wide portfolio of the Group. The variety of products reduces the risk of product acceptance in foreign markets. With a diversified portfolio the Group already had the know-how, technology and expertise to produce the range of products that would best fit in the target market. Also in the target market Sumol+Compal products outweighed in quality and innovation.

The exports to Africa revealed the acceptance of the products, even if consumers would pay, included in the final price, for the transportation and import tariffs. With this argument it is possible to conclude that Sumol+Compal products were really competitive in the target markets and with local production able to maintain the quality and to make the necessary adaptation the Group could add value.

Resources/Commitment Factor

The Group's resources should be aligned with the willingness to commit them to the development of foreign market operations, in this case for the development of the project and its further implementation. The International Operations Department itself studied Africa for a few years, deploying resources and time to come out with the best evaluation of emerging opportunities. At this point the marketing campaigns that took place in Angola and Mozambique, the development

of the GUD brand were very important to enhance the commitment of the group to the successful implementation of the FDI project. Also the success in the African Market could also be seen as a commitment of resources in the sense of learning and know more about that market in order to better perform when producing locally.

6. Angola and Mozambique are former Portuguese colonies. How does it influence the decision and election of a country to have local production? How would you define the cultural, administrative, geographic and economic aspects from a proximity point of view? (Please use the CAGE framework) (Suggested time spent: 20 minutes)

Managers should take into consideration the distance and differences between countries when designing their international strategies. By distance it means not only geographical distance but also distance in terms of culture, administrative and economic differences that could be translated into costs and risks and threatening the overall success of the international move.

In this question the instructor should develop and board the concepts of the CAGE framework in order to analyse the four scopes' (Cultural, Administrative, Geographic and Economic)⁵ that are relevant for Angola and Mozambique in relation to Portugal. Together with the analysis of the CAGE dimensions is important to take into consideration the drivers of internationalization and the impact of distance.

TABLE 4 – Cage Framework

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<ul style="list-style-type: none"> - Different Language - Different Ethnicities - Different Religions - Different Social Norms 	<ul style="list-style-type: none"> - Absence of colonial ties - Absence of shared monetary or political association - Political hostility - Government policies - Institutional weakness 	<ul style="list-style-type: none"> - Physical remoteness - Lack of a common border - Size of country - Weak transportation or communication links - Differences in climate 	<ul style="list-style-type: none"> - Differences in consumer incomes - Differences in costs and quality of natural resources, financial resources, human resources, infrastructures, information or knowledge

Source: Ghemawat, P., 2001 *Distance Still Matters*, Harvard Business Review, September 2001, p. 137-147

⁵ Ghemawat, P. (2001) "Distance Still Matters", Harvard Business Review, September 2001, p. 137-147

As said in question 1 the Portuguese environment was not the most attractive, the market value was decreasing, consumption was not expected to increase and domestic turnover had the lowest value of the last 3 years while foreign operations' turnover was increasing since 2009. So there was a primary market based internationalization motivation to exploit the internationalization opportunities and to stabilize the decrease in domestic operations.

In terms of cultural distance one should pay attention to variables like language, religion, ethnicities and social conduct that could affect the consumer's behaviour and their relation with the company and products.

In Angola, among African dialects spoken in the country, the official language was Portuguese. People from Angola were from different races and ethnicities, with the major part of the population belonging to an ethno linguistic group that is Christian and located mainly in Sub-Saharan Africa. Although there was a great part of the population that spoke African dialects on a daily basis the Portuguese was the official language. As in most part of African countries, Mozambique's population was composed of different African ethnic groups. Most part of the population was catholic.

By speaking the Portuguese language all and every commercial relations were simplified. Communication and Marketing campaigns in Portuguese speaking countries was easier and more efficient. The mutual trust between Portugal and Angola or Mozambique could be considered high due to a long lasting relationship and the presence of Portuguese companies in both countries as well as the Angolan and Mozambican growing communities in Portugal.. They were already used to each other. Ultimately, being Portuguese could not have a positive impact, but on the other hand had no negative impact.

So for Angola and Mozambique the Cultural distance relatively to Portugal was **medium/low** with this dimension playing the role of an attractive variable and minimizing the risks addressed to cultural differences.

The Portuguese heritage in Africa created great affinities in that continent and especially in Angola and Mozambique the Group gained some advantage over international competitors, because they were already well known and well accepted. Despite being former colonies of Portugal with all the ties related to that fact, being politically stable and opened to foreign products and investments there were some issues fostering the administrative distance. Angola and Portugal had different currencies that could represent an exchange risk and muddle some business and operations, the same was true for Mozambique.

Difficulties that arise from bureaucracies and legal issues placed Angola more distant in the administrative dimension. Even with a specific protocol of cooperation with Portugal companies

needed to be very flexible to start operating in Angola. Furthermore the country was ranked 169th in the *Doing Business rank* and had the perceived image that corruption was part of the business routine. The legal system was inspired in the Portuguese system, but even so bureaucracy and interpretation of the law were frequent barriers.

The Mozambican legal system still contained a lot of aspects that needed improvement even if based in the Portuguese one. However, the government's attempts to reduce bureaucracies on starting a business had a positive impact. Mozambique was ranked on the 135th position of *Doing business rank* with a perceived corruption more attractive than Angola. So the political risk, the demanding level of bureaucracies and institutional weakness led to a **high administrative distance** between Portugal and the two target countries, Angola and Mozambique. However the development of these countries governmental policies and bureaucracies was shortening the Administrative distance.

Even if the time zone difference was only one hour to Angola and two to Mozambique, both countries were physically very distant from Portugal. Angola, situated on the west coast of Africa was closer than Mozambique. Even with investments made in transportation infrastructures, the most important one, the harbour of Luanda was constantly overcrowded and it took lots of time to take the goods ashore. Regarding Mozambique the physical remoteness was higher as it was located in the East coast of Africa and transportation costs were higher. In Mozambique only Maputo's harbour had capacity to handle larger international cargo. For these reasons the Geographical distance to Angola was **High** and to Mozambique was **Very High**, that distance being reflected on the prices charged to the final consumer in those countries.

Wealth and income of consumers were important attributes affecting the economic distance between countries. It is important that companies are aware of the scope of this economic distance to evaluate the viability of producing and marketing its products in other countries. Even with a registered decrease in the GDP growth rate since 2007, mainly due to the global economic crisis, Angola listed in the top 10 economies with fastest growth from 2001 to 2010 with a GDP per capita of 1 369 US\$ in 2010 comparatively to 888 US\$ in 2005. The Human Development Index Values for 2011, which is a composite statistic of life expectancy, education and income rates, rated Angola at 0,482 whereas Portugal was rated at 0,809 (**Exhibit 14**). While human resources in Angola were scarce and very expensive the natural resources were relatively cheaper and abundant, thus infrastructures development was a way of shortening the economic distance. Mozambique also listed the top 10 fastest growing economies with an average growth rate of 7,9% a year. The GDP in 2010 was 8 972 million US\$ and registered a growth of 6,8% with a GDP per capita of 384 US\$. In 2005 the Human Development Index Value was 0,285 and in 2010 increased to 0,317. In terms of Human resources the Mozambican situation was similar to the Angolan, however in Mozambique it was

easier to get a better qualified workforce. Given the economic pros and cons Angola could be considered as **medium** economically distant and Mozambique as **medium/high** economically distant.

To conclude, one should consider the fact of being former colonies as very relevant for the selection of the country to have a FDI project. That impact is especially relevant at the Cultural and Administrative levels as it facilitates relations. The CAGE analysis revealed the economic potential and similarities in terms of culture while the high levels of Geographical distance reinforced the opportunity for Angola and Mozambique as target for the FDI project.

Instructor should use table 4 to support students' conclusions on this question. The table should be firstly presented and then students should be asked to answer the question according to the CAGE framework.

2.8 What has happened

During 2012 Sumol+Compal has made great strides on international expansion. After some years studying the African continent and the viability of local production in Angola and Mozambique the Group found in 2012 the right internal and external conditions to expand.

The Mozambican Project went ahead and the factory purchase was formalized in March 2012. Later that year, in November, production of GUD juice was initiated and the Compal brand products were expected to start being produced in a near future.

Regarding the Angolan project, the Group maintained its intention to its implement. However, due to changes in the legal framework for foreign investment in Angola, the project needed to be reformulated and adapted to the new changes. The Group was trying to move on that phase as fast as possible for further implementation of the project.

The strategy for the African continent included both projects and the Group considered them as two independent projects for Africa.

While the Mozambique project development was relatively fast, the Angola Project had some setbacks, however, the Group intends to invest in Angola in the 1st half of 2013.