The International Expansion of Marcopolo (B):

Manufacturing in 'The Other Side of the World'

Abstract

The case examines the experiences of Marcopolo, the largest manufacturer of bus bodies in Brazil and one of the largest in the world, in Russia, India and Egypt, their inception, and the subsequent events until the beginning of 2011. After years of consistent headway towards a globalization strategy, the company was facing hard times along several fronts, not least because of the world economic crisis. Management faced the question of what should be the next move in their internationalization efforts and how to cope with the uncertainties posed by the expanding geographical scope of operations.

Introduction

In the beginning of 2011, top management at Marcopolo, the largest manufacturer of bus bodies in Brazil and one of the largest in the world, was reviewing the status of its international operations. After years of consistent headway towards a globalization strategy, including several success stories, the company was facing hard times along several fronts, not least because of the world economic crisis. The Portuguese plant, its first abroad, was closed in 2009, after almost 20 years in operation. Also in 2009 the company pulled out of the joint venture with the Gaz group (formerly RusPromAuto) in Russia, closing the two plants it operated there. This represented a significant setback, as Russia was one of the most attractive markets for buses and had been one of the most important bets in Marcopolo's recent internationalization efforts. The situation with the Mexican joint venture had also been difficult since 2009, again due to the global economic crisis. Political developments in Egypt, where the company operated under an association with a local company, had brought production to a halt, and prospects were unclear. Management faced the question of what should be the next move in their internationalization efforts and how to cope with the uncertainties posed by the expanding geographical scope of their operations.

The Bus Body Industry in Brazil and Worldwide

The evolution of the Brazilian bus body industry is strongly associated with the Kubitschek government (1956-1960), when incentives for the development of an automotive industry made it possible for Brazilian companies to develop and control the domestic bus body market. In addition, foreign chassis manufacturers (Mercedes-Benz, Scania, and Volvo) started up local operations.

Main players in the industry in 2010 were Marcopolo, Induscar, and Comil. These companies had competitive advantages that represented significant barriers to potential foreign new entrants. Barriers included knowledge of the specificities of the local market, such as road conditions, and the ability to adapt products to handle them. Once the domestic market had been dominated, the bus body producers, particularly Marcopolo, initiated their move into foreign markets. Exhibit 1 presents export unit figures for Brazilian bus manufacturers for the 2000-2010 period.

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There are two types of companies operating in the international bus body industry: totally integrated producers, which manufacture bodies, chassis, and engines, and body producers, which manufacture the body that will later be assembled on a chassis and engine set. In general, the customer supplies the chassis and the engine on which the body is to be assembled; however, in some cases, a joint-venture is established whereby the integrated producer manufactures the chassis and the engine and uses the body of a third party in order to assemble the final product. The bus body can be exported in several ways: CBU (Completely Built Up), when the final bus product is completely assembled; PKD (Partially Knocked Down), when only the bus body is completely assembled; MKD (Medium Knocked Down), when the bus body is shipped in modules; and CKD (Completely Knocked Down), when the bus body is totally taken apart and shipped in kits to a local partner. Exhibit 2 shows the evolution of bus production in selected countries in the period 2000-2010; Exhibit 3 presents data on global production of selected bus manufacturers.

INSERT EXHIBITS 2 AND 3 HERE

Company Background[1]

Renamed Marcopolo in 1971 after a very successful and innovative bus model, the company had been founded as Nicola & Co. in 1949 in Caxias do Sul, in the state of Rio Grande do Sul in the south of Brazil. The company started out with eight partners and just fifteen employees. Pedro Paulo Bellini, who was to become the main shareholder and leader, joined them in 1950.

In 1953, the company pioneered in Brazil the manufacturing of steel structures for buses, reducing their weight and manufacturing lead time. The company grew rapidly, and by the beginning of nineteen sixties it was producing 240 bus bodies a year. Around the same time the company signed its first export contract, to Uruguay. By the end of the decade output had doubled, thanks to advances in production processes. By the beginning of the nineteen seventies, Marcopolo began to export completely knocked down (CKD) bus bodies to Venezuela, in an agreement that also involved the transfer of technology.

Marcopolo went public in 1978. In 1981, a second and larger plant was inaugurated where all bus assembly activities were concentrated. By that time exports were already worth some 39 million dollars; however, during the

following decade the company was hit hard by the country's economic crisis, and was compelled to cut back on bus production. During this period, the company was one of the pioneers in Brazil in the adoption of Japanese production practices, and as a result benefitted from significant productivity and quality improvements that allowed it to grow consistently for the next twenty years. Partly due to growth in the domestic market, this expansion was also driven by internationalization efforts in terms of exports and foreign production.

By 2010, Marcopolo produced buses in all segments in the industry, bus bodies and components in eleven plants worldwide – four plants in Brazil (three wholly-owned and a 45 percent stake in another Caxias do Sul manufacturer); a wholly-owned plant in South Africa; and plants in joint venture with third parties in Argentina, Colombia, Mexico, Egypt, and India. The company also held interests in three other component manufacturers in Brazil. Foreign operations accounted for 32.5 percent of total units sold and 31.5 percent of units produced in 2010. Exhibit 4 shows the evolution of Marcopolo's production in Brazil; Exhibit 5 presents the distribution of units sold and production in 2009 and 2010 in Brazil and abroad.

INSERT EXHIBITS 4 AND 5 HERE

Brazilian operations expanded during 2010 and the company reached a new production record of almost 19,000 units, representing a 38.2 percent increase over the previous year. In 2010, Marcopolo held a 46.3 percent share of Brazilian bus manufacturing (see the evolution of domestic market share by segment from 2006 to 2010 in Exhibit 6). The company sold 28,285 units in the domestic market and exported 5,110 units, representing a 12.7 percent increase over the previous year. These excellent results were due in part to serious financial problems faced by a major competitor, Busscar. Because of favorable market conditions, Marcopolo invested close to US$ 200 million in the period 2008-2010 to expand and revamp its operations. The company also benefited from a program launched by the National Economic and Social Development Bank (BNDES) to expand Brazilian bus fleets at subsidized interest rates.

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Marcopolo's Internationalization from 2005 through 2010

Years earlier, Marcopolo's top management team had planned to use the company's industrial production facilities in Brazil as "a giant hub for components and parts manufacturing" to be sent to the several plants the company owned in South Africa, Colombia, Mexico, China, India, Russia, and Portugal. However, the appreciation of the Brazilian real against the dollar from 2005 to 2010 made it impossible to implement this plan, since the parts and kits manufactured in Brazil were not price-competitive with those manufactured in other emerging markets. Recalling the strategy envisaged by the company, Ruben Bisi, Chief International Operations Officer, described in an interview the conundrum faced by Marcopolo:

> "So we had put together an entire strategy over the last twenty years in order to be a major exporter here ... The dollar was favorable, and you could get financing from the BNDES for export. And this led Marcopolo to build several units abroad and to be a major exporter of kits. And to leave the technology here, thereby earning royalties ... But this strategy had two things going against it. One was that the *custo-Brasil* [cost of doing business in Brazil] grew substantially; in other words, the cost of labor and logistics costs and taxes etc. all increased. Today, our major cost in Brazil is labor. The other is the exchange rate, which generally does not favor exports."

As a result of these developments, Marcopolo reversed its strategy, increasing local content in its several foreign operations, and adopting a global sourcing plan. Mr. Bisi explained the change as follows:

> "These two factors led Marcopolo to switch strategies, to look further afar in order to figure out, 'Who's going to supply me with kits?' It couldn't be Brazil any longer. Brazil couldn't be the major supplier. Though we still have credit, we lack a competitive cost base."

Since 2003, Marcopolo had already been investigating a possible entry in two very important emerging markets, India and Russia. The company intensified the efforts to enter these markets, since it was becoming increasingly difficult to export from Brazil. Accordingly, in April 2006 Marcopolo signed a joint venture agreement with the GAZ Group Bus Division (Russian Buses) and, in May the same year with the Indian firm Tata Motors.

By 2007, India had become the second largest producer of buses globally, followed by Russia and Brazil. According to Marcopolo's then vice president, José Martins, both India and Russia had a high demand for buses but a low level of technological development to produce bus bodies:

> "We have today 6.5 percent of the world market. With the expansion to India and Russia, we want to achieve around 14.5 to 15.5 percent share of the world market. That's equivalent to almost 50,000 buses. This leaves us in an exceptional position when you compare us with the Chinese manufacturer, which produces only 11,000 to 12,000 units."

The Russian Joint Venture

Marcopolo's management had been studying the Russian bus market since 2003. The Russian territory was served by 854,000 kilometers of highways (ranking seventh worldwide) of which 80 percent were paved. Close to 50 percent of passenger transportation was by bus. Russia was among the five largest markets for buses worldwide, and the expectations were for substantial growth in the years to come.

Two main factors influenced market growth: the obsolescence of the bus fleet and the expansion of private bus transportation companies. In fact, transportation by bus in the Russian Federation had deteriorated during the 1990s and

first half of the 2000s. By 2006, the situation was becoming dire. There had been a reduction of around 47,000 units in the fleets of public transportation companies in the previous decade, and only 80,000 units were still running. Of those, around 60 percent were already ready for replacement and 45 percent were mechanically precarious, threatening users' safety. Because of this situation, it was estimated that public transportation companies would require some 12,000 to 14,000 units per year just to cover replacement. Meanwhile, the market share of private transportation firms was growing, increasing from 31 percent to 38 percent in 2006 alone, with these firms increasing their fleets to better serve the market. In parallel, there was also a trend towards full size buses rather than minibuses.[2]

The Russian bus market could be seen as being divided in five segments: (i) large and extra-large buses; (ii) medium buses; (iii) small buses; (iv) city buses; and (v) intercity and tourist. Competitors varied depending on the segment. Minibuses represented around 70 percent of the Russian production with intercity buses around 22 percent and the remaining categories accounting for the remaining 8 percent. Exhibit 7 shows a breakdown of Russian production by type of bus in 2006.

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Several firms competed in the Russian bus market. Main domestic competitors were the GAZ Group (previously known as RusPromAuto), NefAZ (part of the KAMAZ Group), and MAZ (Exhibit 8).

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The GAZ Group, with headquarters in Nizhny Novgorod, was the largest Russian motor vehicle conglomerate, manufacturing light commercial vehicles, trucks, cars, diesel engines, power-train components and road construction equipment (Exhibit 9).The group was established in 2005 with the restructuring of the RusPromAuto plants. The conglomerate comprised 15 manufacturing firms in Russia, plus an operation in the United Kingdom, and a sales and service network. The group's declared objective was to become one of the leading players in the global industries in which it competed. To achieve it, the conglomerate engaged in partnerships, technology upgrading, reengineering of business processes and internal reorganization.

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The GAZ Group Bus Division was the leading manufacturer of buses in Russia and the CIS[3], and one of the top ten in the world ranking. In 2004, the GAZ Group had 89% market share of the small bus segment; 75% of the medium bus segment; 44% of the large and extra-large segment and 6.9% of the tourist segment. The Russian market accounted for almost 80% of the sales of the GAZ Group Bus Division. Ukraine and Kazakhstan were the two main export markets for the GAZ Group among the CIS countries. Exhibit 10 presents information on the Bus Division production in 2005 and 2006.

INSERT EXHIBIT 10 HERE

NefAZ, the second largest domestic bus manufacturer, was part of the KAMAZ Group, which held a 50 percent stake in the company. The KAMAZ Group was formed from a number of truck-producing plants from the Communist era that reorganized into a joint stock company. It was also a large vertically-integrated conglomerate in the motor vehicle industry. The Group ranked among the 15 largest producers of trucks in the world. It also became involved in the production of farm and military equipment. NefAZ had six plants in Russia and produced around 1,100 units of buses in 2004. It had announced its intention to increase the production of large interstate and city buses and to drop the production of minibuses. Although the company had an estimated 5 percent of the Russian bus production in 2006, reports in the press suggested that its ambitions were to increase its share to 30%.

In 2007, a new domestic competitor, RZGA, started to sell buses under a license of the South Korean company Hyundai, achieving 9 percent market share. Total production capacity in Russia by 2006 was estimated in 25,000 units, an increase of more than 12 percent over 2005; and around 32,000 units in 2007.[4]

Foreign competition was increasing in the Russian bus market, coming mainly from exports of Chinese, Ukrainian and Belarusian manufacturers. Chinese manufacturers produced both chassis and bus bodies with European technology (from manufacturers such as Iveco, Mercedes, MAN and Volvo). Their main target was the city bus segment. However, some Chinese-made buses did not conform to Russian standards.

Marcopolo's management did not intend to enter the Russian market in a sole venture or by a licensing agreement. Only a joint venture made sense, considering the specificities of the market, Marcopolo's lack of market knowledge, the need to have government connections, and the leading position of one major competitor. Fortunately, the GAZ Group was interested in partnering with Marcopolo and a joint venture agreement was signed in May, 2006. José Martins, at the time Marcopolo's Vice-president, described the Russian venture to an MBA class in 2007 as follows:

> "In Russia, we did a joint venture with Oleg Deripaska, a leading Russian businessmen and the owner of the Gaz Group. This group dominates the production mass transit in Russia. It's an empire, a huge business—and they're our partner in Russia. "

At the time, Oleg Deripaska was the wealthiest man in Russia. Not only did he own the GAZ Group, but he also had interests in several other industries in Russia and around the world, including aluminum (United Company Rusal, the world's largest aluminum producer), aircraft (Aviacor), insurance (Ingosstrack), nuclear energy, coal, and agriculture. Married to a relative of former president Boris Yeltsin, he was a typical entrepreneur of the post-soviet Russia, and well connected with government agencies and industrialists.

Marcopolo's management expected that the joint venture would reach an annual turnover of 100 million dollars within five years. In addition, Marcopolo entered into another joint venture agreement with the Russian firm Technoart to manufacture plastic components. Mr. Martins explained the deal as follows:

> "In parallel, we did a joint venture with Technoart to manufacture plastic components. Marcopolo is the owner of MV[5], which manufactures plastic components: it's the best plastics technology in Brazil. So much so that the panels and the cockpit in Embraer aircraft are made by us. So, we have advanced technology in plastic components. Because Russia has a great demand in this area, we set up a separate company, a joint venture in the city of Vladimir. These plastic parts are sold to GolAZ, to PAZ and to GAZ. The parts include doors, ceilings—everything. This company alone already has sales of 7,000,000 dollars, and it's just getting started. They are going to have sales of 50 million with their hands tied behind their back."

Both Marcopolo and the GAZ Group saw the joint venture as value-adding. In fact, the 2006 GAZ Group Annual Report indicated that one of the main projects for 2007 was "to arrange for a full scale production of modern tourist cruise liners together with Marcopolo." And in its 2007 Annual Report the GAZ Group listed the joint venture "Russian Buses – Marcopolo" as one of its main bus production plants. With Marcopolo providing the joint venture with technology and knowhow, GAZ brought market access and networking to the table—both critical for success in Russia.

The first product rolled out by the joint venture between Marcopolo and the GAZ Group Bus Division was the Real, a bus built on a Hyundai chassis. Production of the model started in November, 2007, with sales following shortly thereafter, in January, 2008. The joint venture also announced two new products: the intercity/tourism models, Andare-850 and Andare-1000. In addition, one of the major investments in 2007 was the implementation of the first stage of the set-up for the production of a small bus, the PAZ-Marcopolo. In 2008 the joint venture had planned to increase capacity in order to produce 5,000 units per year of this model. All of these projects were considered strategic in strengthening the GAZ Group' position in the Russian market, thereby enabling the Bus Division to compete more effectively against RZGA and the Chinese firms. In September 2008, the Real Bus Line produced by the joint venture "Russian Buses Marco" received the "Best Bus of the Year" award at the International Transportation Forum in Moscow.

Nevertheless, Marcopolo's management believed that further commitment between the two parties could yield additional opportunities. By then, Paulo Bellini was the president of the board, José Rubem De La Rosa was the new CEO, and José Martins, the vice president, had retired. In a teleconference with financial analysts, De La Rosa indicated that the joint venture was restricted to certain segments—mainly tourist and interstate— and excluded city buses. But it

was exactly this last segment that Chinesemade buses were eyeing, and the reason was the old-fashioned design and features of the models sold by GAZ Bus Division.

> "Russia has huge potential ... The cost of living in the capital has gone up tremendously, with millionaires buying luxury goods. Outside Moscow, however, there is another, simpler world, with needs and with space for Marcopolo to grow. Our proposal is for them to reassess what was agreed and to enter the market in a bigger way."[6]

Despite excellent results in 2006 and 2007, in 2008 the global crisis brought enormous difficulties to Russia and its motor vehicle industry. This excerpt from the 2008 GAZ Group Annual Report expressed how hard the crisis had hit Russia:

> "This period will go down in economic textbooks as an unprecedented stage when rapid growth gave way to a dramatic fall in the market. In the fourth quarter of 2008, the effects of the global financial crisis on the automobile industry in Russia and worldwide reached their zenith. The sharp drop in activity in the main consumer sectors, the fall in solvent consumer demand, the lack of access to credit, and the contraction of the market by up to 60 percent in some segments inevitably affected the company's financial performance in 2008. These factors reversed the positive trends in the first half of the year, in which the revenues of GAZ Group grew by 20 percent compared to the same period in 2007. For the year as a whole, consolidated revenues dropped by 7 percent." (p. 3)

The bus industry was especially hit, with a decrease of 38 percent in volume (units) and 25 percent in value in 2008. The largest drops in sales were felt by the new entrant, RZGA, and by the Chinese exporters. Imports of small buses dropped 51 percent and of medium-class buses 59 percent; Chinese exports of the last category dropped by 75 percent. The city bus segment contracted by 40 percent, with a 91 percent fall in the sales of Chinese-made buses. The least affected segments in 2008 were extra-large buses and inter-city and tourist buses. The latter segment shrank by only 11 percent; and while the GAZ Group saw revenues and production shrink, its market share did increase, to the detriment of domestic and foreign competitors.

As a result of such changes in market conditions, the joint venture was severely hit in the last quarter of 2008. The number of units produced was insignificant: a total of 198 units since the start of the contract in late 2007. Marcopolo announced the temporary suspension of chassis purchases in Russia by October, 2008, and indicated that it would use only the units available in stock until market conditions improved. In 2009, only 8 units were produced, and operations were temporarily suspended. According to company sources, Russia was the only international market where the company was facing serious problems due to the international recession.

During 2009, the situation became even worse, with an additional reduction of 42 percent in unit volume and 40 percent drop in value. The reduction in units by segment was 39 percent for small buses, 36 percent for medium and large buses, 42 percent for extra-large buses, and 68 percent for inter-city and tourist buses. Imports from China and Ukraine fell 80 percent compared to 2008. Exhibit 11 shows the evolution of the Russian market and of the bus production of the GAZ Group. Exhibit 12 presents the GAZ Group motor vehicle production in 2009.

INSERT EXHIBITS 11 AND 12 HERE

As the Russian bus market dropped to approximately one third of its former size, the GAZ Group experienced a severe crisis. Other firms owned by Mr. Oleg Deripaska were also in financial distress, to the point where many believed he would be unable to hold onto his business empire. He dropped from 9th place in the Forbes ranking of billionaires to 159th. Other competitors in the bus industry also suffered under these turbulent market conditions. Exhibit 13 presents the evolution of revenues and profits of the KAMAZ Group from 2006 to 2010.

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As a result of these events, on December 17, 2009, Marcopolo announced the termination of the joint venture: "Marcopolo has ended its association with Ruspromauto, in Russia (currently Gaz Group) with its share of assets being transferred to a new wholly-owned subsidiary."[7]

Although the firm ceased to operate in Russia and its joint venture with the GAZ Group had ended, management still considered the Russian market very attractive, and that it made sense to consider other alternatives to serve it. One possibility was to export bus bodies from China, because of the special commercial agreements between the two countries. Also, the Indian operation, a joint venture with Tata Motors, could be used as an export platform to reach the Russian market, albeit at lower risk.

The Indian Joint Venture

The Indian initiative started at the same time as the efforts in Russia. It was part of the same strategy of international expansion towards large emerging markets that had not yet been penetrated by Marcopolo.

India was the second most populous country in the world and seventh in terms of territory. Despite a large proportion of the population (42 percent, according to 2005 World Bank estimates[8]) living below poverty line, the economy was growing rapidly (an average of 6 percent GDP growth between 1992 and 2002, and more than 8 percent between 2003 and 2006). Nonetheless, the transportation infrastructure remained a major barrier to economic growth. A special report on India by *The Economist* highlighted the situation of the country's roads:

> "India's 3.3m km road network is the world's second-biggest, but most of it is pitiful. Its prize national highways…account for only 2% of the total, and only 12% of them, or 8,000km, are dual carriageways. India's

> urban roads are choked… The government has given unprecedented attention to India's infrastructure deficit, with some decent results. Following in its predecessor's footsteps… it has pushed public-private partnerships (PPP) for building roads and airports… The government has also launched a plan to build a 1,500km road and rail network, linking Delhi to Mumbai... But this is still nowhere near enough."[9]

Another major problem was the deterioration of bus fleets across India's cities. Depending on the city, bus penetration could vary from 0.6 to 6 buses per thousand inhabitants.[10] The Indian government, as well as the private sector, was aware of these problems. In fact, bus production capability in India had nearly doubled since 1999 to 2007 and extra funds were made available by the central government to replace old buses. In fact, in 2005, the Indian government launched the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) program to provide support to local governments for fleet replacement during a seven-year period (2005 to 2011).

Marcopolo's management saw an opportunity where others might see a threat. Because of its Brazilian experience, the firm had developed unique capabilities to build bus bodies capable of withstanding bad road conditions. However, because it lacked connections in India and had limited market knowledge, the company actively searched for a local partner.

The best potential partner was Tata Motors, a member of the large Tata conglomerate, originally founded in 1868 in India. In the 1980s, the Group operated in a larger number of industries and its administration was decentralized in the hands of a group of professional managers that reported directly to the Tata patriarch. In the 1990s, in response to the economic liberalization policies of the Indian government, the Tata Group underwent several changes, including restructuring and selling or closing plants in highly competitive sectors. By 2002, the Tata Group was concentrated in seven sectors: steel, motor vehicles, electricity, chemicals, telecommunications and information technology, financial services and consumer goods. One of the most powerful family conglomerates in India, by 2006, Tata Motors had a 48 percent share of Indian bus production (Exhibit 14).

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Negotiations with the Tata Group were initiated. The deal seemed interesting for both parties, since Tata Motors only manufactured chassis. Former Vice-president José Martins explained how the deal was negotiated with the Tata Group:

> "The Tata Group currently has annual sales of between 29 and 30 billion dollars. It's a huge group. They are an icon in India. Tata does not make buses: they make just the chassis. Compared with the Brazilians, Indians are very slow to make a decision; but when they do, they're serious. It took me three years to convince Mr. Tata. He already had the chassis. So why not make the body to put on top of the chassis and sell a complete Tata? He

resisted, arguing that there were many local manufacturers and that he would ruin them… I suggested to him the following: 'Let's do this: let's license these local manufacturers. We'll choose the six or seven best. You sell them the chassis. They use our technology. Our Indian factory sells them the parts. They assemble the bus and deliver it to us. Then we sell it.' Mr. Tata liked the proposal and so we did a joint venture. We're talking about 33,000 buses in this proposal: Eight thousand will be produced by the six or seven franchisees I spoke of and other 25,000 by Tata Marcopolo ....Tata has 51 percent and we have 49 percent. We have already invested 70 million dollars in the joint venture. Marcopolo's investment is 395 million dollars. We already have 50 of people out there. The operation there is larger than the one in Brazil. Today we manufacture 17,000 thousand buses; at Tata, we should reach 25,000 buses in 2011 or 2012. It's an excellent deal ..."

The agreement was signed in 2006. At the time, Mr. Ratan Tata, Chairman of the Group, expressed his hopes for the joint venture:

"The rapidly expanding and improving road network, connecting cities and also rural areas, is expected to substantially grow passenger transport. The joint venture with Marcopolo, which is one of the largest bus body builders, will enable Tata Motors to successfully address the growing demand in India, as well as relevant markets abroad".[11]

The joint venture, Tata Marcopolo Motors Ltd. (TMML), started operations in 2007 to build buses to serve the Indian domestic market and to export to Africa and the Far East. Facing initial delays to establish a plant at Dharwad, in Karnataka, TMML started its operations in Tata's Lucknow plant. When the Dharwad plant reached full capacity, it was expected that the joint venture could produce 25,000-30,000 units per year and be the world's largest bus production plant.

TTML intended to exploit several opportunities in the Indian market. One was to serve city and state governments in their efforts to replace unsafe and obsolete fleets of buses all over India. With this in mind, a national program was set up to support and subsidize local governments. Another was the implementation of the Bus Rapid Transit System (BRTS) in large Indian cities. The joint venture planned to produce a variety of products, including low-floor city buses, 16 to 54seater standard buses, 18-seater and 45-seater luxury buses, and luxury coaches.[12] Two new models were developed for the Indian market: one was a 28seater microbus and the other was the low-floor air-conditioned Starbus LE, designed to serve the Bus Rapid Transit System (BRTS) of New Delhi:

"The Starbus LE has a low floor and air-conditioner developed to satisfy the Bus Rapid Transit System (BRTS) of New Delhi. The floor with only 380 millimeters of height from the soil and the large doors make it easy for passengers to get in and out, reducing the time at stops, shortening the time taken for a trip and increasing the

service efficiency. Internally, the Starbus LE is equipped with air-flow curtains over the doors to keep the interior temperature low and improve the riding comfort. The rear engine helps reduce the noise level. The vehicle has special safety features like sonorous signals for opening and closure of doors, safety belts, pneumatic control that does not allow the bus to leave while the doors are open, manual ramp for the disabled, and a sonorous system that informs the destination and the bus stop (station). The rear and front of the vehicle are built in stamped steel."[13]

By the end of 2008, there was evidence that the Indian economy remained relatively protected from the world crisis; it was the second fastest-growing major economy in the world, after China. India was also the second largest bus manufacturer in the world, with an estimated 16 percent share of global production. The numbers varied somewhat according to the source and depending on whether vans and coaches for passenger transportation were included or not. Because of this, estimates for total Indian production varied from 44,000 to 75,000 in 2008.

TTML became profitable in the fourth quarter of 2009, and increased production during 2010 (Exhibits 15 and 16). According to *Motor India*, the agreement had been extremely successful: "Tata Motors has done well in the bus segment and thanks to its association with Marcopolo, it is only getting better."[14]

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Marcopolo's management also felt the joint venture was performing satisfactorily. According to former vice-president José Martins, TMML was "perhaps our most successful joint venture." In addition, the joint venture in India had a key strategic role that could not be performed by any other operation:

"So, why India? It is not just to sell buses within India. What we are doing is building up a platform of defense in India to tackle the Chinese competition. If the Chinese manufacturers attempt to invade our market in the Caribbean, in Africa, in Central American or South America with cheap Chinese buses, then we—thanks to our operations in India—will sweep them out of these markets with a bus at the same price, but donning the Marcopolo name. And so there will be no way for them to get a foothold in the market. It's the only way for us to defend ourselves; and that's why I've been preaching the internationalization thing. Because only internationalization can save us from Chinese competition. Look what they did with the shoe industry, with the manufacturers of toys and apparel: they did away with all of them. I got tired of saying that companies need to internationalize in order to have a basis of protection. "

The Egyptian Joint Venture

Marcopolo already served part of the African market with its South Africa subsidiary. However, this plant was not able to adequately serve the Northern part of Africa. As a result, management started to consider offsetting up an operation in another African country, located in the North of the continent. The objective would be to also serve part of the European market, as well as the Middle East.

Egypt presented several advantages then as a recipient of foreign direct investment. First, the country was situated in a strategic geographic position relative to Northern Africa, the Middle East and most of Europe. Second, it was a modern Arab country with a stable and moderate political regime, led by President Hosni Mubarak, who had been reelected to his fifth mandate in 2005. Third, the economy had been growing at a rate of six or seven percent during the last three years (Exhibit 17). Fourth, foreign direct investments were encouraged by automatic licenses and no requirements of local content. The Egyptian government guaranteed profit repatriation and did not impose price controls, except in the pharmaceutical industry. Several reforms were underway to strengthen the financial system. In addition, the country had signed the international treaties to protect industrial property and trademarks. As a result, in 2008 alone, Egypt was the recipient of US $9.5 billion dollars of foreign investments.

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Egyptian exports were growing faster than its imports, thanks to several economic changes to liberalize foreign trade. Mr. Ruben Bisi, Chief International Operations Officer, was impressed with the opening of the country's economy to foreign trade:

> ".. .Egypt is a country that has many free trade agreements with other countries. They have a free trade agreement with Nafta—Egypt exports with zero tariff to Nafta. A free trade agreement with Europe, a free trade agreement with the Gulf States, a free trade agreement with Africa."

Road transportation was the most important means of passenger transportation (around 60 percent of total passenger flow). Around 80 percent of the roads were paved, but a large part was not in good condition. In the major cities, subways were also a preferred means of transportation.

In mid-2008 Marcopolo signed an agreement for a production joint venture with GB Auto S.A.E., a local manufacturer. The agreement established the move to a new plant in Suez, to start up by mid-2009. Total investment was US $50 million over three years, and the forecast was to produce 1,500 units in 2009, reaching 5,000 units by 2014. The new venture—in which the Brazilian company held a 49 percent stake—was initially named GB Buses S.A.E. (GBB), and produced both GB Auto and Marcopolo models. At the announcement of the agreement, Mr. Carlos Zignani, Director of Investor Relations, said, "Our partner has a plant in Cairo, but he is transferring operations to Suez. We will wait to start everything there."[15]

The local partner also owned other businesses, with around 7,000 employees. The Egyptian entrepreneur was well connected to Egyptian political circles, and had access to the right people and information—essential elements to be successful in business there. Marcopolo was already talking with a potential partner in Egypt when it was contacted by the entrepreneur, who had heard of the company and its plans. Further negotiations led to the final agreement, involving transfer of technology and production in a greenfield plant. The joint venture plant, renamed GB Polo Bus Manufacturing Group, had 900 employees and produced more than 400 units in 2009 and close to 700 in 2010.

There had already been concerns of social unrest in the country by the end of 2010, due to the growing level of unemployment (9 percent in 2010), high inflation rates (around 11-12 percent in 2009 and 2010), and a substantial drop in exports (from US $65 billion to US $44 billion), a result of the global economic crisis. These conditions, combined with successful popular uprisings in other Arab countries (known as "the Arab Spring"), led to the deposition of Egyptian President Mubarak. The situation brought turmoil to the country and affected GB Polo's operations. In January, 2011, the Brazilian press reported that Marcopolo had decided to bring home three of its key local managers. Initially, other employees were relocated to a safer place near the plant, but then, according to Mr. Bisi, the local partner informed that it was impossible to ensure their safety, food or transportation. Therefore, it was decided to bring home the Brazilian employees and suspend local operations until the situation was under control.

Three weeks later GB Polo was reported to have gradually restarted operations, even though the political and economic situation remained unclear. Deliveries of parts, components and raw materials were still disrupted, but the plant had enough stock to restart operations[16]. The situation looking forward was unclear, and a de-acceleration of the economy was a probable outcome of the events in the country.

Other Developments in the International Front

The evolution of Marcopolo's operations in the several world markets seemed to reflect the differences in local conditions (see Exhibit 18). Nevertheless, total production reached its peak in 2010. A brief review of developments by country is presented below.

Argentina. Marcopolo had previously owned a plant in Argentina, which closed in 2001. However, in 2007 Marcopolo acquired a 33 percent stake in Metalpar, a local producer of city bus bodies, whose major shareholder was Chilean. In 2009 Marcopolo acquired further 7 percent and in early 2011 increased its share to 50 percent. According to press reports, with this last move investments in the Argentinean operations totaled 20 million dollars. Partners had joint management of the company, with Marcopolo being responsible for manufacturing at the plant. The company performed satisfactorily in 2008, 2009 and 2010.

China. Since the end of 2008, Marcopolo has operated a plant in Jiangyin, China, to produce components for export to other subsidiaries in the world. The plant had been leased for ten years and could easily be adapted to produce bus bodies. By 2010, Marcopolo was ready to start production of bus bodies in China, but, due to government regulations, it needed a local partner to sell its products there. However, even if Marcopolo decided not to have a local partner, it could still manufacture in China to export to other world markets. Total capacity was estimated at 4,000 units per year.

Mexico. The operations in Mexico were also hit by the global crisis. During 2009, the plant was forced to operate at half capacity, and in 2010 the plant closed for three months. In addition, problems of violence by drug gangs were increasing the costs of bus transportation companies, which had to hire security guards for each bus in operation in the more violent areas of the country.

Portugal. In August 2009, Marcopolo closed its Portuguese operations. The Portuguese plant – the first foreign operation of Marcopolo – was located in Coimbra and had been acquired in 1990. However, the Portuguese subsidiary had losses due to the global crisis and the small scale of the plant. Marcopolo's management believed the European market could continue to be served by the Egyptian joint venture with low operating costs.

South Africa. Operations in South Africa were very successful during the end of 2009 and the first half of 2010 due to increased demand for high-end buses during the 2010 World Cup. In addition to manufacturing bus bodies in South Africa, Marcopolo also exported buses on Scania chassis from Brazil, which were financed by the Brazilian National Economic and Social Development Bank (BNDES).

Outlook

President José Rubens de la Rosa had indicated in an interview to the business newspaper *Valor* that the company continued to consider increasing its operations in Southeast Asia and reentering the Russian market, but that the priorities at that moment were to consolidate the operations in Egypt and India. He pointed out that, "in the medium term, we must also think about re-positioning ourselves in the Russian market. But everything will have to be done calmly and without rushing things."[17] By the beginning of 2011, further international developments due to the global crisis and the turmoil in the Arab world brought new issues to bear that had to be assessed in Marcopolo's internationalization strategy.

Exhibit 1 – Exports of Bus Body Units from Brazil by Year and Manufacturer (2000-2010)

Year	Marcopolo	Busscar	Comil	Induscar	Irizar	Neobus	Mascarello
2000	2,927	1,600	235	70	-	-	-
2001	4,124	1,497	172	0	-	-	-
2002	4,573	631	359	329	323	-	-
2003	4,254	679	499	501	410	-	-
2004	5,200	1,089	799	482	426	-	-
2005	3,083	1,384	1,071	1,522	395	296	167
2006	2,262	1,793	607	721	284	256	183
2007	2,385	1,635	568	893	339	431	86
2008	2,689	1,480	707	909	332	146	159
2009	1,561	590	508	729	340	32	143
2010	2,109	n.a.	716	943	454	125	216

Source: FABUS (includes exports by the manufacturer and by the assembler)
n.a. = not available

Exhibit 2 – Total Unit Production of Buses – Selected Countries (2000-2010)

Year	Brazil	China	India	Russia	Egypt	U.S.
2000	22,672	i.	28,696	13,696	2,181	31,787
2001	23,373	59,665	23,075	16,663	1,856	23,728
2002	22,826	i.	n.a.	15,829	3,052	22,897
2003	26,990	66,700	n,a,	17,224	2,367	27,943
2004	28,758	78,712	n.a.	18,928	2,780	29,033
2005	35,387	i.	30,347	21,348	2,828	34,259
2006	33,809	i.	i.	24,115	5,633	31,846
2007	39,087	i.	44,420	25,604	3,154	28,419
2008	44,111	119,888	44,101	25,872	4,362	21,400
2009	34,535	129,210	42,002	10,809	4,154	12,300
2010	45,869	161,603	54,609	13,283	n.a.	19,451

Source: OICA
n.a. – not available; i. = inconsistencies

Exhibit 3 – Global Producers of Heavy Buses – Selected Manufacturers (units)

Group	Head-quarters	2004	2005	2006	2007	2008	2009	2010
Daimler	Germany	39,277	53,350	50,807	65,447	68,578	51,306	60,951
Fiat-Iveco	Italy	31,188	21,587	24,364	24,616	23,303	32,021	38,241
GAZ	Russia	12,641	14,081	n.a.	n.a.	n.a.	9,626	n.a
GM	U.S.	n.a.	n.a.	17,396	1,681	12,871	6,577	10,429
Hyundai	South Korea	113,237	99,629	85,278	99,410	104,774	98,625	123,878
Isuzu	Japan	2,745	3,176	3,404	3,668	3,221	2,047	2,404
MAN	Germany	6,389	5,919	7,241	5,956	7,487	5,897	15,681
Navistar	USA	15,762	13,943	18,619	15,919	13,962	13,820	n.a.
Scania	Sweden	5,621	6,141	5,870	7,314	7,807	6,210	n.a.
Tata	India	n.a.	n.a.	n.a.	16,896	19,388	19,379	23,870
Toyota	Japan	i.	i.	i.	i.	i.	4,078	5,177
Volkswagen	Germany	4,899	5,499	5,995	7,510	9,840	2,280	n.a.
Volvo	Sweden	8,089	10,406	9,566	10,753	12,485	10,805	11,560

Source: OICA, based on survey with manufacturers
n.a. – not available; i. = inconsistencies

Exhibit 4 – Evolution of Marcopolo's Unit Production of Bus Bodies in Brazil (1971-2010)

Source: FABUS
Note: Data does not include the production of Neobus, in which Marcopolo has a 45% stake.

Exhibit 5 – Marcopolo's Consolidated Domestic and International Unit Production (2009 -2010)

Operations	**2009**	**2010**	**% Change**
Production in Brazil			
Domestic market	12,123	16,856	39.0
Export markets	2,188	2,486	13.6
(-) KDs exported	639	442	(30.8)
Total Production in Brazil	13,672	18,900	38.2
Total Foreign Production	5,712	8,680	52.0
Marcopolo's World Production	19,384	27,580	42.3

Source: Marcopolo Annual Report 2010
Notes: only accounts for the percentage of the subsidiaries' production equivalent to Marcopolo's share in the company; KD = Knocked down

Exhibit 6 – Marcopolo's Share (%) in the Brazilian Production (2006 – 2010)

Products	**2006**	**2007**	**2008**	**2009**	**2010**
Interstate	42.6	48.5	49.3	56.9	66.5
Urban	43.0	45.6	41.6	36.5	37.8
Micro	22.5	35.4	38.6	37.1	42.0
Mini (*)	18.5	21.8	13.8	35.7	46.9
Total	39.2	44.7	43.0	41.7	46.3

Source: Marcopolo 2010 Annual Report
(*) does not include the production of Volare

Exhibit 7 – Breakdown of Russian Production by Bus Type (2006)

Source: GAZ Group

Exhibit 8 – Market Share (%) in the Russian Bus Market by Competitors (2006-2009)

Year	GAZ Group	NefAZ	MAZ	RZGA (Hyundai, S. Korea)	King Long (China)	Yutong (China)	Other Imported	Other Domestic
2006	66	5	2	-	n.a.	n.a.	24	3
2007	58	4	2	9	4	3	18	2
2008	68	n.a.	n.a.	n.a.	n.a.	n.a.	23	9
2009	77	n.a.	n.a.	n.a.	n.a.	n.a.	11	12

Source: GAZ Group Annual Reports
n.a. = not available

Exhibit 9 – GAZ Group – Production of Vehicles by Division (2006)

Division	Share in Group Sales	Market share (estimates) - Russia
Commercial vehicles - Light duty trucks - Minibuses - Medium duty trucks	34% 6%	46% 58%
Cars	8%	12%
Trucks	8%	57%
Buses	13%	66%
Powertrain	9%	54%
Road construction equipment	5%	between 50% and 64%(*)

Source: GAZ Group 2006 Annual Report
(*) varies according to the segment

Exhibit 10 – GAZ Group – Unit Production of Buses by Make and Type (2005-2006)

Make	Products	Categories	2005	2006
PAZ	Urban and intercity	Small/medium-sized	13,721	14,215
KAVZ	Urban and intercity	Small/ medium-sized	3,425	2,330
LIAZ	Urban	Large/articulated	2,485	2,995
GOLAZ	Interstate	Large	208	421
	Urban	Articulated		
Total GAZ Group			18,644	21,056

Source: GAZ Group (heavy and light buses)

Exhibit 11– Evolution of the Russian Market for Buses and of the GAZ Group Bus Unit Production (2002-2009)

Source: GAZ Group Annual Reports

Exhibit 12 – GAZ Group – Production by Vehicle Type and Make (2009)

Country	Make	Cars	LCV	HCV	Heavy Bus	Total
Russia	AZ			6,554	275	6,829
	GAZ	2,161	44,777	6,434		53,372
	GOLAZ				127	127
	KAVZ				533	533
	LIAZ				1,383	1,383
	MARKO				53	53
	PAZ				7,255	7,255
	Total Russia	2,261	44,777	12,988	9,626	69,552
UK	LDV		39			39
Total		2,261	44,816	12,988	9,626	69,591

Source: OICA (based on survey with manufacturers)

Exhibit 13 – KAMAZ Group – Revenues and Profits (2006-2010)

Revenues (in millions of Russian rubles)	**2006**	**2007**	**2008**	**2009**	**2010**
Trucks and assembly kits	42,825	63,315	61,995	39,507	47,841
Spare parts	11,729	14,712	15,209	9,011	11,836
Buses, truck trailers and truck mixers	8,905	10,540	9,500	5,454	5,664
Metallurgical products	2,376	3,542	3,176	1,337	2,111
Leasing income	561	748	766	361	320
Truck repair services	1,334	357	532	556	1,645
Other sales of goods	2,374	2,824	3,211	3,516	3,214
Other services	908	1,191	1,959	1,152	1,142
Total Revenue	71,012	97,229	96,348	60,894	73,773
% of export on total sales	26%	23%	20%	15%	11%
Loss(profit) after taxes (in millions of Russian rubles)	4,140	7,868	(268)	(2,579)	(889)

Source: KAMAZ Group Consolidated Financial Statements

Exhibit 14 – Market Share of Indian Bus Manufacturers (2006)

Source: Compiled from several sources.

Exhibit 15 – Tata Group – Production by Vehicle Type and Make (units) (2009)

Country	**Make**	**Cars**	**LCV**	**HCV**	**Heavy Bus**	**Total**
India	Tata	220,153	162,271	103,665	19,379	505,468
South Korea	Tata		8,131			8,131
UK	Jaguar	41,765				41,765
	Land Rover	114,596	2,085			158,446
Total		376,514	172,487	103,665	19,379	672,045

Source: OICA

Exhibit 16– Tata Group – Production by Vehicle Type and Make (2010)

Country	Make	Cars	LCV	HCV	Heavy Bus	Total
India	Tata	339,712	225,816	171,454	23,870	760,852
South Korea	Tata		9,039			9,039
UK	Jaguar	56,356				56,356
	Land Rover	182,984	2,112			185,096
Total		579,052	236,967	171,454	23,870	1,011,343

Source: OICA (based on survey with manufacturers)

Exhibit 17 – Egypt – Economic Indicators (2004 – 2010)

Economic Indicators	2004	2005	2006	2007	2008	2009	2010
GDP (current prices - US$ billion)	78	93	108	130	159	192	219
% GDP growth over previous year	4.1	4.5	6.8	7.1	7.2	5.1	4.7
Imports (US$ billion)	28	33	40	51	65	44	53
Exports (US$ billion)	12	16	22	25	32	20	25

Sources: ITC; CIA World Factbook

Exhibit 18 – Evolution of Marcopolo's Total Production of Bus Bodies by Country (units)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	9,652	11,379	10,682	11,589	10,838	10,575	14,103	16,365	13,672	18,900
Mexico	1,423	1,964	1,687	2,102	3,200	2,898	2,595	3,214	1,510	1,255
Portugal	112	96	119	176	224	190	188	165	54	0
Argentina(33%)	0	0	0	0	0	0	0	567	470	723
South Africa	120	204	399	406	300	314	485	560	308	416
Colombia (50%)	187	567	737	833	947	847	712	765	638	736
Russia (50%)	-	-	-	-	-	-	15	175	8	0
India (49%)	-	-	-	-	-	-	-	-	2,517	5,216
Egypt (49%)	-	-	-	-	-	-	-	-	207	334
	11,494	14,210	13,624	15,106	15,509	14,824	18,098	21,811	19,384	27,580

Source: Marcopolo Annual Reports
Note: only accounts for the percentage of the subsidiary's production equivalent to Marcopolo's share in the company

Endnotes

1 Company background has been abridged based on information in case “The International Expansion of Marcopolo (A): Adventures in China” , which was also submitted to the Balas Conference.

2 GAZ Group 2006 Annual Report.

3 CIS stands for the Commonwealth of Independent States, created in 1991. CIS members are Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

4 GAZ Group 2006 Annual Report.

5 Even though Marcopolo still hold an interest in MVC, control was sold to Artecola by the end of 2008, according to the 2009 Annual Report.

6 Arruda, G. Marcopolo propõe mudanças na Rússia para conter avanço chinês. *Gazeta Mercantil*, August 6, 2008, p. A6.

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Teaching Note

The International Expansion of Marcopolo (B):

Manufacturing in ‘The Other Side of the World’

Case Objectives

The case intends to serve as a vehicle to discuss the internationalization process of BRICS firms in other emerging markets. Instructors can pursue the following specific objectives:

- examine how a company from one of the BRICS countries entered other emerging markets.
- analyze the impact of the 2008-2009 international crisis on the firm and the extent to which it forces the firm to change its strategy.
- discuss how different internationalization theories can be used to explain the international trajectory of an emerging market firm.
- suggest possible strategies for the continuing internationalization of an emerging economy firm aspiring to achieve global relevance.

The case can be used in conjunction with case (A) - The International Expansion of Marcopolo (A): Adventures In China – or separately.

Case Synopsis

Marcopolo, the largest manufacturer of bus bodies in Brazil and one of the largest in the world, started several joint ventures to manufacture bus bodies. The case examines specifically the experiences in Russia, India and Egypt, their inception, and the subsequent events until the beginning of 2011.

After years of consistent headway towards a globalization strategy, including several success stories, the company was facing hard times along several fronts, not least because of the world economic crisis. The Portuguese plant, its first abroad, was closed in 2009, after almost 20 years in operation. Also in 2009 the company pulled out of the joint venture with the Gaz group in Russia. This represented a significant setback, as Russia was one of the most attractive markets for buses and had been one of the most important bets in Marcopolo's recent internationalization efforts. The global crisis had also hit the Mexican joint venture. Political developments in Egypt, where the company operated under an association with a local company, had brought production to a halt, and prospects were unclear. In spite of that, the recent joint venture with the Indian firm Tata Motors and the operations in Brazil were doing quite well. Management faced the question of what should be the next move in their internationalization efforts and how to cope with the uncertainties posed by the expanding geographical scope of their operations.

Central issues in this case are: (a) the advantages and disadvantages of becoming a truly global firm; (b) the need to adapt to very different international contexts; (c) the need to be prepared to face several political and economic hazards as a firm turns global; (d) how to learn from the negative experiences in the internationalization process and to

use the lessons learned in the next steps.

Intended Use

The case can be used in international business, international marketing, international operations, multinational management, and emerging markets courses. It can be used in conjunction with case (A) to discuss the international development of a firm, and how a domestic firm from an emerging economy turns into a global player. If used alone, the focus could be either on the several risks faced by an emerging multinational, or the impacts of the 2008-2009 recession and subsequent events on the trajectory of an emerging multinational firm.

This case has been successfully used in graduate programs in conjunction with case (A). It can also be used in executive programs and training of government officials.

Suggested Questions for Class Discussion

The following questions are suggested:

1. What were the advantages and disadvantages faced by Marcopolo when entering Russia, India and Egypt?
2. What was the rationale behind the decision to enter each one of these markets with foreign direct investment?
3. Did it make sense to use joint ventures in each of these countries? Why?
4. Why did things go wrong in Russia?
5. Could Marcopolo`s management have predicted at least to some extent the risks incurred in the Russian venture?
6. What were the lessons to be extracted from the failure of the Russian venture?
7. Should Marcopolo re-enter the Russian market? How?
8. Compare the Indian venture with the Russian venture. What were the main differences between these two experiences?
9. Why was the Indian venture more successful?
10. What were the problems faced by the Egyptian joint venture?
11. Could Marcopolo`s management have predicted at least to some extent the risks of the Egyptian venture?
12. How successful was the firm in its international expansion until now?

13. How should Marcopolo proceed in its internationalization process?

Case Analysis

Depending on how the case is intended to be used, some issues may or may not be raised by the instructor. Nevertheless, this analysis covers a broad set of issues that might be considered.

Q1 – What were the advantages and disadvantages faced by Marcopolo when entering Russia, India and Egypt?

Marcopolo was in a very favorable position to enter these emerging markets for several reasons. One reason was the competitive advantages developed by Marcopolo since its inception, the most important being know-how to deal with bad road conditions. As described in the case, these three countries (Russia, India and Egypt), as well as other emerging economies, had the same problem: lack of adequate transportation infrastructure and road maintenance. Large multinational manufacturers had products originally developed to be used in better road conditions, and therefore their products tended to be less suited to these markets.

Second, Marcopolo was a bus body manufacturer, and did not produce the chassis. This characteristic, which could be seen at first glance as a limitation, was in fact an advantage to establish a joint venture with a local chassis manufacturer, since Marcopolo and the local company had complementary competences. Of course, this aspect was not an impediment to other integrated manufacturers, because they could enter a joint venture to make bus bodies only. Nevertheless, a local manufacturer might be reluctant to reveal its product and process characteristics to a potential future competitor, for fear of opportunistic behavior by the partner (Williamson, 1975).

A third advantage was to be an emerging market firm. There seems to be a more favorable attitude among managers of firms from emerging economies than between those and managers of large, long-established multinationals from the United States and certain European countries. This attitude can be explained by several reasons, including resentment of previous colonial ties, prejudice against imperialism, etc. In addition, Marcopolo was still an entrepreneurial family firm; these characteristics were also common among potential partners in the target countries.

A fourth advantage, this time derived from the firm's cultural background, is the ability to operate in countries where personal relationships, political connections and insider information are important to be successful. Such cultural characteristics are typical of most cultures in the world, including Latin American, Latin European, Arab, Indian and Chinese cultures, to mention a few. However, cultures belonging to the Anglo, German and Scandinavian cultural clusters – from which traditional multinationals come – are more impersonal and individualistic, more rigid in terms of ethical rules in business, and believe that government and business should keep a distance. Managers from these cultures tend to find it more difficult to operate in the realm of personal relationships.

A fifth advantage was Marcopolo's experience with joint ventures in other foreign markets. Sixth, Marcopolo had the technological competences, the experience and the size to be attractive to potential partners in a joint venture in these countries. It was at the technological edge of its industry. Also, as most Brazilian global players, it was backed by the Brazilian national development bank (BNDES), a giant institution even when compared to the Interamerican Development Bank (IDB) or the World Bank.

As to the disadvantages, the most relevant was the firm's lack of experience in these specific markets. Because of geographical distance and freight costs, Marcopolo did not start as an exporter, and then established a commercial office before moving to foreign direct investment in Russia and India – a path predicted by the Uppsala internationalization process model (Johanson and Vahlne, 1977, 1990), and followed in the past by most multinational firms from developed countries. On the contrary, the firm entered these two markets without having gained any previous experiential knowledge. It was to some extent different in the case of Egypt, since Marcopolo had exported to this country for several years.

Also, Marcopolo's rapid pace of internationalization – the Russian joint venture agreement was signed in April 2006, the Indian agreement in May 2006, and the Egyptian agreement in mid-2008 – did not permit top management to concentrate attention and efforts in a single new venture. This last issue deserves further discussion.

Q2 – What was the rationale behind the decision to enter each one of these markets with foreign direct investment?

Russia and India were among the five largest markets for buses worldwide, with a substantial percentage of the population using buses. However, bus fleets were old and obsolete in both countries. In Russia, there had been a reduction of the public bus fleets of around 47,000 units and around 60% of the remaining units were ready for replacement. The situation was no better in India, where the government had launched a special program to partially replace the existing bus fleets. In addition, road conditions were not good, especially in India. Finally, Egypt had 60% of the population using buses and a large part of the roads were not in good condition. Therefore these were extremely attractive market opportunities for Marcopolo.

In addition, entering Russia and India was part of Marcopolo's strategy to increase its global market share and become a truly global company: to manufacture in 'the other side of the world'. The Indian operation was even more important to the firm's strategy. According to Marcopolo's former vice-president, José Martins, it was not only a matter of selling buses in India; it was also a defensive move against Chinese competitors, since the Indian joint venture could sell buses at prices as low as the Chinese could practice in any country in the world: "If the Chinese manufacturers attempt to invade our market in the Caribbean, in Africa, in Central American or South America with cheap Chinese buses, then we—thanks to our operations in India—will sweep them out of these markets with a bus at the same

price…”

The logic behind the investment in Egypt was substantially different. Marcopolo’s South African subsidiary could not adequately serve North Africa. Therefore, Marcopolo had attended these markets from its European subsidiary located in Portugal. However, this plant was too small to be profitable and the economic crisis severely hurt Portugal and the UE. A plant located in the Northern part of Africa would be able to serve not only the region, but also Europe and the Middle East, at lower costs. Because Egypt had several commercial agreements with countries all over the world, import tariffs would not be a barrier to export to the target markets from Egypt. In addition, compared to other Arab countries in Northern Africa, Egypt was more developed, more cosmopolitan, moderate and politically stable. Finally, the country offered a favorable environment to foreign direct investment.

Therefore, several reasons – which made sense at the time Marcopolo’s management considered these countries – seemed to support each investment decision.

Q3 – Did it make sense to use joint ventures in each of these countries? Why?

The choice of a joint venture instead of a sole venture also had its logic. Not only in Russia, but also in India. the logic was the same: “Only a joint venture made sense, considering the specificities of the market, Marcopolo’s lack of market knowledge, the need to have government connections, and the leading position of one major competitor.”

As to the Egyptian joint venture, the main advantage was that “the Egyptian entrepreneur was well connected to Egyptian political circles, and had access to the right people and information—essential elements to be successful in business there.”

In addition, Marcopolo was already quite experienced with celebrating successful joint ventures in other countries, such as Colombia and Mexico (these countries, however, were psychically-close to Brazil, while Russia and India were not).

Q4 – Why did things go wrong in Russia?

Students may argue that the global economic recession hit Russia particularly hard, which is correct. However, the dependence of the Russian economy on oil prices and its vulnerability to global recessions do not explain fully the problems faced by the joint venture in Russia.

Post-Communist Russia is well-known as a land of opportunities, but also a country where the rule of law is not yet fully established. Personal connections are extremely important, and there is an undesirable symbiosis between business and government – as in many other countries. However, in very few places of the world business empires have been built so fast as in post-Communist Russia.

Oleg Deripaska was the wealthiest man in Russia at the time the joint venture was signed. His credentials included to be known as an aggressive businessman who accepted high risks, and to be very well connected, having married a relative of former Russian president Boris Yeltsin. His businesses covered several industries such as aluminum, aircraft, insurance, nuclear energy, coal and agriculture. It is very possible that Mr. Deripaska's empire was ready to fall when the recession hit. It was too big, had grown too fast, and lacked governance and control mechanisms to handle economic shocks. (Instructors could suggest students to further investigate the rise and fall of business empires in Russia and specifically Mr. Deripaska's background).

Q5 – Could Marcopolo`s management have predicted at least to some extent the risks incurred in the Russian venture?

Q6 - What were the lessons to be extracted from the failure of the Russian venture?

There is plenty of evidence that it is extremely difficult to predict disruptive events. In fact, the 2008-2009 recession was not fully recognized until it was already underway. The extreme vulnerability of the Russian economy and of the bus industry to the recession would be hard to predict even for experienced economists. Therefore, Marcopolo's management could not be accused of myopia – at least no more than most businessmen in the world.

In spite of this, it seems that Marcopolo's managers were too impressed with their partner, as we can infer from José Martins' proud declaration: "It's an empire, a huge business—and they're our partner in Russia". Marcopolo's managers were probably naïve in their evaluation of the GAZ Group. They probably did not take into account that whenever one sees very rapid growth, it can be assumed that high risks were taken.

Students may argue that in spite of these considerations the GAZ Group would have looked like a great partner to any firm in the bus industry that wanted to enter Russia with a joint venture, and that if the recession had not hit Russia hard at that time things might have gone quite well. We have to agree with this reasoning.

Q7 – Should Marcopolo re-enter the Russian market? How?

The Russian market continues to be attractive, as the CEO of Marcopolo indicated. There is no reason not to consider re-entering the market at a later point. There are several alternatives:

1. To continue to export from India – This is probably the alternative that presents less risk. Unfortunately, it seems that it would be difficult to gain a large share of the Russian bus market with exports. What happened to Chinese exports of buses to Russia when the global crisis hit the country supports this argument.

2. To re-enter the Russian market as a sole venture – On the positive side, it can be argued that Marcopolo already gained experiential knowledge about the Russian market. Therefore the firm is better prepared now than it was before to manufacture in Russia without a partner and then sell bus bodies to different chassis manufacturers.

On the negative side, it would still lack government connections which are of paramount importance to succeed in Russia.

3. To re-enter the Russian market with a new joint venture – This joint venture would be with one of the remaining players, once the turmoil in the industry ended. However, Marcopolo's CEO wisely indicated that this move should take some time and that "everything will have to be done calmly and without rushing things", suggesting that the previous decision to invest in Russia might have been rushed.

There are other alternatives that students may suggest, such as exporting from China, partnering with another multinational firm, etc., but these are less promising variations of the ones just mentioned.

Q8 – Compare the Indian venture with the Russian venture. What were the main differences between these two experiences?

Q9 – Why was the Indian venture more successful?

The Indian venture was very successful, at least in the time horizon covered by the case. Market opportunities were similar in Russia and India. The main differences can be found in the resilience of the Indian economy to the global recession and in partner selection. India is also a very stable democracy. Students should be encouraged to gather more data about the Indian economy during this period.

As to partner selection, there are similarities and differences between the two partners. Both Tata Motors and the Gaz Group were the leading firms in their industries and they were part of large diversified conglomerates; both manufactured only the chassis. However, while the Gaz Group was a young entrepreneurial firm that grew very fast, the Tata Group was a solid, traditional family business, dating back to 1868 – an impressive case of business longevity.

Obviously, there was no rush in the Indian decision-making process. Former Vice-president José Martins indicated also indicated that the decision-making process of Indian managers was slower, compared with the Brazilians; it took him "three years to convince Mr. Tata". Mr. Tata had ethical concerns and a sense of responsibility towards his suppliers; he did not accept Marcopolo's proposal before a solution was envisaged to protect his suppliers' interests. Issues such as ethical behavior, social responsibility, and commitment with suppliers were part of the ethos of the Tata Group. There is no evidence in the case that the GAZ Group held (or not) similar values, but one can guess that a recently-born conglomerate combining former state-owned enterprises probably did not have the time to develop shared values.

Q10 – What were the problems faced by the Egyptian joint venture?

Q11 – Could Marcopolo`s management have predicted at least to some extent the risks of the Egyptian venture?

Political risk has been studied in several fields, such as economics, international relations, political science, and business administration. The ability of a multinational firm to assess political risk is very important to its longevity.

The question is whether the political risk associated to an investment in Egypt was understood at the time by Marcopolo's management. Egypt was in fact quite stable, since Mubarak's dictatorship was supported by the Egyptian army. Nevertheless, he was already an old man and Egypt was an Arab country. Social unrest was not fully unexpected, but the so-called "Arab spring" could not have been predicted at the time. In support to Marcopolo's decision, it can be argued that Egypt was the best bet in Northern Africa, and the decision to invest in the region made sense.

Q12 –How successful was the firm in its international expansion until now?

In spite of the global crisis, Marcopolo increased its worldwide sales and profits. These positive results were largely due to the superior performance of the two largest operations, Brazil and India. Marcopolo apparently was doing quite well, despite the closing of the Portuguese and Russian operations and the problems with Egypt and Mexico. In fact, one could look at Marcopolo's presence in China (see case A), India, and Russia (case B) almost as alternative manufacturing locations in "the other side of the world". It is quite evident in the case that the success of the Indian operation gave the firm a strong foothold "in the other side of the world", and a low-cost operation to compete with the Chinese. It is almost as managers had planned to do several experiments to determine which location was more favorable, and not to proceed gradually, testing one alternative after the other.

Q13 – How should Marcopolo proceed in its internationalization process?

There is no definite answer to this question. However, students should be encouraged to support their recommendations with solid arguments.

The authors of the case believe that the firm needs to better develop its internal systems of governance and control of its international operations before going ahead in its internationalization, since there is a risk that the fast pace of internationalization and the broadening of the scope of its operations to truly becoming a global player has a negative impact on shareholder value and profitability. However, the rapid increase in speed and scope of internationalization is not uncommon among multinationals from emerging economies in an attempt to overcome their late entrance in foreign markets.

Theoretical Issues

The final stages of Marcopolo's international expansion, as depicted in case (B), cannot be fully explained by traditional internationalization theories. There is a consensus in the literature that the Uppsala model serves better to explain the early stages of internationalization. Although it is useful to understand how Marcopolo started its

internationalization process (see case A), it cannot explain the moves described in case B. Neither the Eclectic Paradigm of International Production or Internalization Theory can explain this process. At this point, only a few studies on strategies followed by emerging market firms are available, and there is no consistent theory to explain why and how emerging market firms internationalize. Several sources in the literature may be useful to understand the issues involved in the multinationalization of emerging market firms, such as Casanova (2009), Ramamurti and Singh (2009); Ramsey and Almeida (2009), Sauvant (2008), Sauvant et al (2010).

Another interesting theoretical issue that can be explored is multinational diversification and performance. The relationship between foreign direct investment, diversification and firm performance has been examined by several authors. Doukas and Lank (2003) found that geographic diversification of multinational firms has a positive impact on long-term performance when foreign investments are related to the firm's core business, which is the case of Marcopolo. Another relevant piece of research is the article by Vermeulen and Barkema (2002), who argue that the type of internationalization process followed by the firm has an impact on the benefits it can get from the spread of its operations around the globe. The authors claim that the speed and the scope of the internationalization process may negatively impact profitability. In the case of Marcopolo (B), it is quite clear that the rapid pace of internationalization probably reduced the potential profitability because of the losses in Russia and Egypt, even if the company was still quite profitable. A review of the research on internationalization and performance is provided by Glaum and Oesterle (2007).

Other Relevant Information

This case can be used in conjunction with case A – "The international expansion of Marcopolo (A): Adventures in China" – which discusses the sequential steps in Marcopolo's internationalization until 2005. The first case has also been submitted to the Balas Conference.

The authors had no previous relationship with the firm. The two cases are based on several interviews conducted with members of the firm's management team from 2004 to 2010 and secondary data from several sources.

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