



The Entry of **KORRES** into Brazil

Master Thesis, Cand.merc. International Business at CBS

Copenhagen Business School 2014

Kia Louise Stokkebye

Date: 04/07-2014

Page: 80

STU's: 181.890

Supervisor: Georg Wernicke



Acknowledgement

First of all, I would like to thank my family and all of my friends, who have been very patience with me during the writing process. You have given me support and been there along the way, and I could not have done this without you! I am so gratefully for all of your support and guidance, it means the world to me. THANK YOU. Special thanks to my parents, whose support has been tremendous, and which help, helped me through the last couple of month.

I would like to give my acknowledgement and thank you to my supervisor Georg Wernicke, for his support throughout the assignment. He made everything seem easy, which was a huge help. He gave me the confidence in the assignment, and ensured me that I was on the right track, when I needed it. Thank you for all of your support and conversations, and for being such a calm and nice person.

Last but not least, thanks to Isabella Sakarellou from KORRES for giving me the interview. I have been able to make extensive use of the information obtained through the interview, and it has been perfect for triangulation to the assignment and to get a deeper insight into KORRES, which I could not have obtained without her help and interview. Also thanks to Per Sørensen from Care Brands A/S for making the interview happen.

Abstract

“The entry of KORRES into Brazil” - Expansion of a beauty brand into an emerging market.

The thesis has the purpose of answering the following questions:

Which country specific factors of Brazil and the beauty industry have led to - or affected the choice of KORRES to enter with an alliance?

How can this decision affect the brand identity of KORRES?

As it outset, the thesis has the notion of investigating which factors that have led to or affected the choice of the beauty company KORRES, to enter the Brazilian market with a strategic alliance. The thesis contains two analysis. The first analysis is concerned about country and industry factors that can have affected or led to the alliance. The second analysis investigates how the brand can be affected by the alliance. To answer the RQ most fulfilling, the thesis is divided into the following sections:

1. Characteristics of KORRES: Provides the reader with information and characteristics of KORRES. It looks into the history of the company, what they stand for and what their primary focus is on. This gives knowledge of the company, used when analysing their choice.

2. Characteristics of Brazil and the Beauty industry: Provides factors of the country and the beauty industry in Brazil. It is divided up into two parts, one part on the country factors and the other about the beauty industry. It answers the first part of the RQ *“Which country specific factors of Brazil and the beauty industry have led to – or affected the choice of KORRES to enter with an alliance?”*.

3. Alliance and Brand Identity: Focuses on answering the second part of the RQ *“How can this decision affect the brand identity of KORRES”*. It analyses the growth strategy chosen by KORRES in Europe, how the alliance can affect the brand, and how this can affect the new strategy in Brazil.

4. Conclusion: Concludes on all of the findings and provide the reader with an answer to the RQ.

Abstract.....	1
Introduction	4
Problem.....	4
Research Structure	7
1. Methodology	7
2. Characteristics of KORRES.....	7
3. Characteristics of Brazil and The Beauty Industry	7
4. Alliance and Brand Identity	8
5. Conclusion.....	8
6. Perspective.....	8
Methodology	9
Philosophies	10
Approaches.....	12
Strategies.....	12
Research Choice.....	14
Time Horizon	14
Primary Data	14
Secondary Data	15
Theories.....	16
Delimitations.....	25
Definitions.....	27
Characteristics of KORRES	28
Characteristics of Brazil and The Beauty Industry	32
PESTEL Analysis of Brazil	32
Political	33
Economical Factors.....	34
Social Cultural Factors.....	38
Technological Factors	40
Legal Factors.....	42
Discussion of PESTEL.....	44
Sub Conclusion.....	47
Porter's Five Forces Analysis of the Brazilian Beauty Industry	48
The General Beauty Industry.....	49
Suppliers Bargaining Power	51

Substitute Products.....	53
Rivalry on the market.....	54
Buyers Bargaining Power	58
Threat of New Entrants	59
Discussion on Porter's Five Forces.....	62
Sub Conclusion.....	64
SWOT Analysis – Conclusion on the first part of the RQ	65
Alliance & Brand Identity.....	68
The Strategy of KORRES in the European Market.....	68
The Alliance with a Direct Sales Model.....	69
Discussion of KORRES in the Identity Prism.....	72
Picture of sender	72
Picture of Recipients.....	74
Internalization.....	75
Externalization	75
Sub Conclusion.....	76
A New Strategy in Brazil – Conclusion on the second part of the RQ	77
Conclusion.....	79
Perspective.....	80
Bibliography.....	81

Introduction

This thesis started out with a focus on KORRES and their absence from Brazil and the Latin American countries. The research question was based on how come the beauty company KORRES was not on the Brazilian market, as this would be a great opportunity for them. Three months into the paper, KORRES releases a press release (Appendix 1) stating that they are entering the Brazilian market, with an alliance with Avon. Avon is a company that enables women all over the world to earn money, by direct selling, using direct marketing. Therefore, the focus of the paper changed, and instead of looking into why they were not on the market, the focus shifted toward the reasons behind the new entry strategy, and how it could affect the company and its brand identity. Thus, due to the change of focus in the paper, the interview has not been conducted until the 6th of May 2014. The paper therefore has signs of this shift of focus. The first part of the paper, that answers the first part of the research question, does not contain any argumentations or statements from the interviewed person. It is based on the empiric from the chosen theories, and the interview will not be used until the second part of the paper, that focuses on brand identity. Here, some of the findings from the interview will be used as qualitative data, and used together with the other data.

Problem

KORRES is a Greek beauty company that produces and sells face and body care products, fragrances, coloured cosmetic (makeup) and toiletries. They have over 500 products in 30 countries, and the products contain special herb you only find in the Greek flora, thus making the products very unique (The ingredient, 2014). The philosophy is based on the use of natural or certified organic ingredient of high quality, that have to be environmentally friendly and sustainable produced, and affordable for everyone. The company have their headquarter in Athens, Greece, from where most of the production takes place, and the company employs 251 employees (Around the globe, 2014).

Their skin care products have been on the market since 1996, where the firm was established, and the company has slowly expanded their market to the rest of Europe and the USA (The Korres pharmacy, 2014). KORRES has had a positive turnover since their start, and has managed to

overcome the international crisis in 2008, and the Greek crisis in 2010. In 2013 the consolidated sales reach €39,245 thousand, and the earnings before interest, taxes, depreciation and amortization reached €7 million (Annual Report, 2013).

KORRES has the know-how to adapt and enter new markets, as they have market-insight from both the European and the US market. Since they have been working within the beauty and personal care industry for years, one would expect that they know how to compete and stay competitive in a highly competitive market as the beauty and personal care industry. The company is always seeking market opportunities to expand the business, and KORRES has for years been looking into expanding the business and increasing the awareness of the company and their organic and natural products to Latin America, and especially Brazil (Interview 1, appendix 15).

Brazil is one of the fastest growing countries within the beauty industry and is estimated to become the second biggest beauty market in the world (Laporte, 2014). KORRES has not been on the market before, but states in a press release that beginning February 2014, they are entering the Brazilian market with a strategic alliance with the beauty company Avon Products, Inc. through Avon Latin America Inc. (Press Release, 2014).

“Avon – the company for women” is an American international manufacturer and distributor that operates in more than 100 countries and the products are being sold through more than six million independent sales representatives (Avon, About Avon, 2014). It is the leading direct selling company in the world (Euromonitor, Retailing, 2012). Avon sells beauty products, personal care and household, and has a market share of 9 % in Brazil (Pitman, 2012), and is the fifth largest beauty company in the world. Latin America is the biggest market for the manufacturer and over half of its income steams from this market (Avon, About Avon, 2014). Avon has experienced increased growth over the last years, and this is according to Euromonitor International, caused by investments in large advertising campaign, new product launching and an increase in the sales representatives (Nichole, 2011). Avon is according to Forbes, listed as number two in the top ten of beauty brands in 2012 (Forbes, 2014).

By entering the strategic alliance, KORRES is secured \$11.5 million (€8,5 million) the first twelve months. The alliance can run up to fourteen years, with the option for Avon the purchase the remaining KORRES intellectual property for Latin America territory (Press Release, 2014).

The alliance gives Avon the right to sell and produce the products of KORRES in Brazil, which is a new turn for KORRES, given that they normally use distributors or opens stores around the world (Interview 1, appendix 15).

When KORRES enters a new market, it has always been through store opening or distribution through retail stores, so this is the first time they use a distributor with a direct sales model. KORRES do not seem to know anything about this form of business structure, and this raises the question of why they have entered with this strategic alliance, and what lies behind their decision. Since they know how to enter and adapt to new markets, one would think that they had entered the market before and with a strategy that is familiar to them. What is more, is that using a direct sales model might influence the brand, by changing the association of the brand identity, and KORRES might loose control of their trademark and brand in Brazil, when changing their expansion strategy. It seems as a very bold decision to enter an alliance, where the products will be produced in Brazil under Avon's supervision. Especially when KORRES brand themselves on the production and extraction method, and being an environmental friendly company. The question being raised is now, how come they have done this? What can be the reasons for this strategy, and is there anything specific about the country or the industry that have led to the decision? What factors can have affected the choice to enter? Are there any internal factors that have affected the decision? What can cause a firm to try something new in a new unknown market? These questions are all questions to help answer the following research questions the problem has led to:

Which country specific factors of Brazil and the beauty industry have led to

– or affected the choice of KORRES to enter with an alliance?

How can this decision affect the brand identity of KORRES?

It is relevant and intriguing to see how come a company that has a specific expansion strategy, that knows its business and have a good turnover, all of the sudden changes its entry strategy and try something completely new, which can affect their brand and perception of products. It is relevant how a market structure can dictate an entry strategy, and make a company change their familiar entry strategy. It is interesting to look at the differences in distribution channels, especially in a high competitive industry as the beauty industry, and look into how the retail channels are used differently in different countries. This is the first time KORRES uses an

alliance with a direct seller and let the production take place and be supervised in another country. Thus, it is important to uncover the country and industry factors that might be the reasons for their choice, and look into how this can influence the brand and brand identity. It will also be interesting to examine, if KORRES have thought about how this can affect the brand identity.

Research Structure

To answer the research question fulfilling, the thesis is divided into following sections:

1. Methodology

This section includes aspects of the decisions throughout the paper, and focuses on how the RQ will be answered, and what tools that is used to do this. It draws attention to the different approaches used throughout the thesis, and presents the reasons to why the different approaches and decisions have been made, in the process of writing the thesis.

2. Characteristics of KORRES

This section provides the reader with information and characteristics of KORRES. It looks into the history of the company, what they stand for and what their primary focus is on. This gives knowledge of the company, used when analysing their choice.

3. Characteristics of Brazil and The Beauty Industry

This section provides the reader with factors of the country and the beauty industry in Brazil. It is divided up into two parts, one part on the country factors and the other about the beauty industry. The aim is to answer the first part of the RQ “*Which country specific factors of Brazil and the beauty industry have led to – or affected the choice of KORRES to enter with an alliance?*” with this section of the thesis.

The section analyses some of the most important factors that are investigated, when a company enters a new market. Not all market factors have been included, as it is not all factors of the country and beauty market that are relevant for answering the RQ.

The first part of this section is the characteristics of the country, which is analysed with a PESTEL analysis. The second part is the characteristics of the beauty industry, and is analysed

with Porter's five forces model. PESTEL and Porter's five forces are thus analytical tools to uncover, analyse and interpret the findings, and emphasize the opportunities and threats of the country and beauty industry, and reveal the factors that determine the entry strategy. The findings so far are summed up in a SWOT model and a discussion is made upon the findings of KORRES, the PESTEL and Porter's model. The SWOT sheds light over the strength and weakness of KORRES and opportunity and threats of the country and industry. A conclusion is drawn based on the findings, and the first part of the RQ is answered.

4. Alliance and Brand Identity

This section focuses on answering how the brand identity can be affected when entering the market with the alliance. First, the growth strategy chosen by KORRES in Europe is discussed. Then, the alliance and a direct sales model is discussed, and the discussion includes statements from the interview with Isabella Sakarellou, Head of Export Marketing & Business Development, to give insight to the company and its action. Next, an analysis and discussion of the brand identity of KORRES is conducted on Kapferer's identity prism (Kapferer 2008: 183). The prism is used as a tool and guideline for how the brand identity can be affected, when using a direct marketing model and new producer. After the analysis and discussion, a conclusion is made on the findings that answer the second part of the RQ.

5. Conclusion

This section sums up the conclusions, and answers the RQ. It concludes on all of the findings and provides the reader with an answer to the RQ.

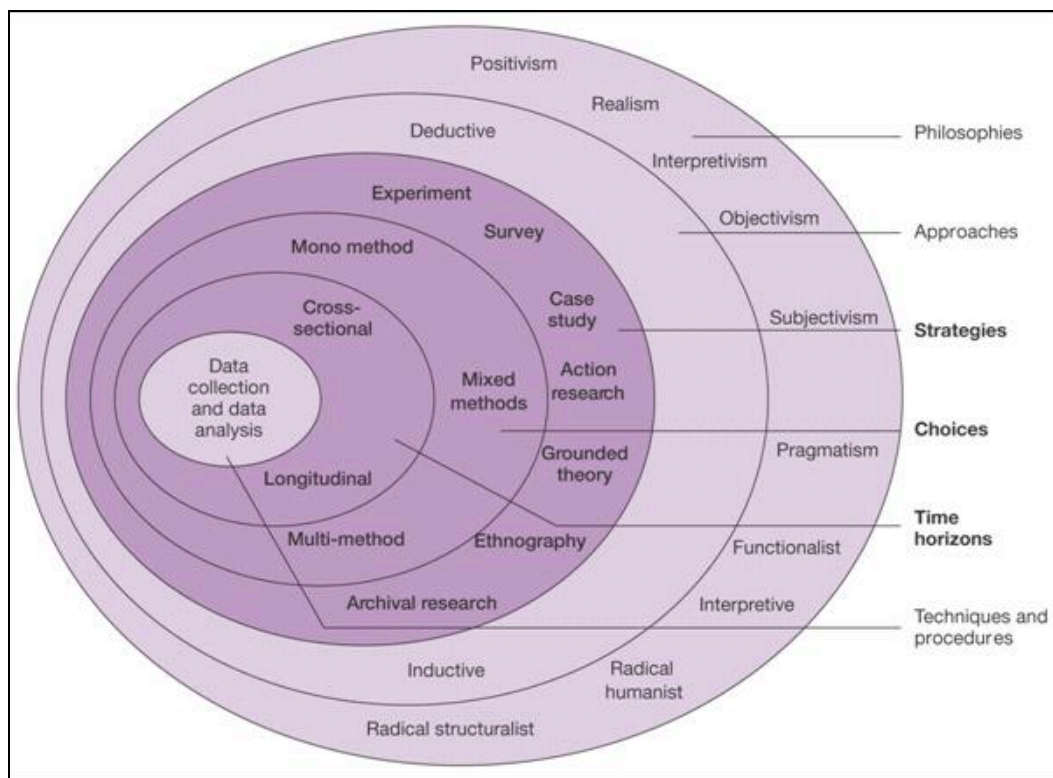
6. Perspective

In the end, a perspective is made on which other factors that could have been intriguing to investigate and take into consideration, based on the nature of the assignment.

Section 1

Methodology

As a structure for the thesis, and to give a clearer picture of what is explored, the research onion by Saunders (2007: 132) is used. The thesis and structure works through the different layers, starting from outside in. This approach is a help and guideline when doing the research, and helps to make sure the requirements of the thesis are fulfilled.



The purpose of the research is to investigate why KORRES have entered the Brazilian market with the strategic alliance that uses a direct sales model, the factors that may have influenced their decision and how this can affect the brand identity. Initially the object is therefore to look at the external factors, and look into the structure of the country and industry, to see what could have affected or led to the decision. Moreover, the thesis looks at the internal factors of the company to find reasons for the alliance, and look into the specific alliance and investigate factors that can affect the brand identity. Primary and secondary data are used to answer the

research questions, and an interview with Isabelle Sakarellou, Head of Export Marketing & Business Development of KORRES is conducted. The interview is used as triangulation to the findings and analysis, but also to get a better and deeper understanding of the choice of KORRES. The thesis is conducted on a macro, meso and micro level, and is conducted at a strategic and tactical level. The assignment is strategic, given that the overall goal and initiatives by KORRES to enter the Brazilian market and expand the corporation is looked into and explored. The tactical level of the assignment is based on the actual means used to gain access to the Brazilian market, which is the alliance with Avon. The means are the different reasons for the decision and the factors influencing them. Different philosophies of epistemology is used throughout the assignment, positivism and interpretivism, a deductive approach, a mixture of the descriptive, exploratory and explanatory strategy, and primary and secondary data, in order to solve and answer the research question. The thesis now starts explaining the different approaches used, starting with the philosophies.

Philosophies

Philosophies are concerned about how the RQ is answered and which approaches the researcher find most appropriate (Saunders, 2007: 108). Given that the RQ focuses on different aspects, the assignment uses the *pragmatic view*, which allows for different philosophies and approaches to be used at the same time (Saunders, 2007: 108). Pragmatism argues that the most important determinant of the research philosophy adopted is the research question, and that one approach may be better than another, in order to answer the research question (Saunders, 2007: 110). In the assignment, the philosophy of *epistemology* is used, and takes on the philosophy of *positivism*. This is due to the nature of the research, as the findings are interpreted as the truth. The data and findings are considered as necessary facts for answering the RQ and authority is focused on the facts instead of feelings (Saunders, 2007: 102-103). Since the thesis investigates external factors of a country and industry, this philosophy is deemed most appropriate, as the data and findings are considered as acceptable and true knowledge. When using the pragmatic view, the findings in the positivistic approach can be examined with the *objective* view, but be analysed and interpreted with the *subjective*. Both of these views belong to the *ontological field*, which are concerned with nature of reality (Saunders, 2007: 108). The philosophy of *interpretivism*, belonging to *epistemology* as well, is also used, as the findings concerning the brand identity, are interpreted with an empathic stand using an objective and subjective view (Saunders, 2007: 107).

Positivism

This approach is used in the thesis, as the thesis in some parts reflects this philosophy. It is based on the natural science, and is “working with an observable social reality and that the end products of such research can be law-like generalisation similar to those produced by the physical and natural scientist” (Saunders, 2007: 103). The thesis uses existing theories in order to answer the RQ, which is part of the positivistic philosophy. Since the RQ cannot be answered without gathering facts that are objective, the positivistic approach is appropriate, since the facts are viewed as the truth. The analysis is conducted, as far as possible, in a value-free way, with as little bias as possible toward own opinions, giving more validity to the findings. “*Only phenomena that can be observed will lead to the production of credible data*” (Saunders, 2007: 103).

Interpretivism

This philosophy is used in the thesis, as it believes that it is necessary for the researcher to understand differences between humans in our role as social actors (Saunders, 2007: 106). It is the opposite of positivism, as it focuses on conducting research among people rather than objects. This fits the research, as an interview is conducted, and not all of the findings in the assignment can be law-like generalized. Since the research focuses on brand identity and the change of this, this form of philosophy is suitable, as social actors plays a part in the change. Moreover, the findings need to be viewed in a subjective way in order to interpret the findings and reach a conclusion. Additionally, according to Saunders (2007), some would argue that an interpretivistic perspective is highly appropriate in the case of business and management research, particular in fields such as organizational behaviour, marketing and human resource management. As this is a case study of a business, and factors of marketing and organizational behaviour are analysed, it fits the research. Because the pragmatic view is used, it is acceptable to use these two opposite philosophies, as long as they are applied in the right framework, thus using positivism when investigating country and industry factors, and interpretivism, when investigating factors of the brand identity that could have an influence, but where nothing is sure and needs to be viewed subjectively.

Objectivism and Subjectivism

Objectivism portrays the position that social entities exist in reality external to social actors. This means that the research takes on an objective view on the findings, and only conclude on what can be observed. The view is not influenced by personal feelings and interpretations, thus based on facts and unbiased (Saunders, 2007: 108).

Subjectivism is that social phenomena are created from the perceptions and consequent actions of social actors (Saunders, 2007: 108). Thus, existing in the mind of a person with an individual perception and evaluation. These two aspects are used individually or together throughout the thesis, depending on what is being analysed.

Approaches

The thesis uses a *deductive approach*, as it tests and uses different theories to help answer the RQ. A deductive approach explains relationship between variables, and this fits the assignment, since it investigates the country and industry factors in Brazil, and how these can affect the choice of KORRES. The approach moves from theory to data and is very structured. It is the testing of a hypothesis with help from quantitative and qualitative data. Thus, factors in the models are examined and analysed thoroughly, with help from quantitative and qualitative data, in order to answer the RQ. In a deductive approach the researcher is independent from what is being observed and researched, and the discussion of the assignment will therefore be based on the findings. Another characteristic of deduction that is used is generalisation, as it argues that the findings can be generalized, and used for other markets as well (Saunders, 2007: 117-118).

Strategies

The thesis is constituted as a mixture of a *descriptive*, *exploratory* and *explanatory* case study of KORRES, as these strategies support each other the way this research is being conducted. The study gives a ‘snap shot’ of the market conditions in Brazil, and is therefore not a study of change and development within the market over time. It describes the market conditions as they are now. Thus the assignment is *descriptive* since the object of descriptive research is “to portray an accurate profile of persons, events or situations” (Saunders, 2007: 143). *Exploratory* is used when seeking new insight and information on a subject, and when asking questions, where the answer is unknown. This is in alignment with the nature of the research and the fact that an interview will be conducted. The interview is used as *triangulation* and as a validity check of *quantitative* and

qualitative findings. *Explanatory* is used to explain a relationship between two or more variables. How different variables can affect each other (Saunders, 2007: 132-133). The research has the purpose of both establishing and explaining causal relationships between different societal conditions – defined by the factors in PESTEL and Porter’s Five Forces – and how they affect the decision of KORRES, which is why the study is termed explanatory.

A *case study* is defined as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Saunders, 2007:139). In view of the fact that KORRES is investigated as a company, and an interview with a person from KORRES is conducted, together with secondary data, it can thereby be defined as a case study. The nature of how the research is being conducted furthermore supports this argumentation, since a specific company is being explored.

Limitations to this form of strategy, is that it can be time consuming, when designing, analysing and interpreting the findings, when only one person is conducting the thesis (Waysman, 1997). It demands several skills, to conduct the analysis, and these skills can be difficult for one person to possess. Therefore, to prepare, conduct and analyse can be time consuming, and if findings are contradictory, challenges can arise, if they contradict the basic assumption.

This assignment and case study can be generalised as it is deductive, thus KORRES can use the findings when entering new markets, with same market structure. Other companies, wishing to enter the market, can also use the findings of the country and industry. The findings can also be generalised, when looking into other L.A. countries, as much of the culture and way of doing business are alike in these countries. Other companies like KORRES, or companies that have the same size of company, employees, business strategy and are working- or wish to work – in the international market, can use the findings as well. The findings do not just comply with KORRES. KORRES is used as a case study, but other companies could have been used as well, as the thesis analyses the external factors, such as the country and industry. If using another company, the above-mentioned factors would still have been explored, and the findings probably been the same. The only distinction would be the company investigated.

Research Choice

The thesis is using a *mixed method approach*, which have two strains, e.g. *mixed-methods research* and *mixed-model research*.

The *mix models approach* is used, as this approach allows the use of different forms of data, both qualitative and quantitative, and comply well with the pragmatic philosophy. Using both quantitative and qualitative data allows for the use of triangulation to the findings throughout the thesis. In this approach, the data are analysed as it sees fit for the assignment (Saunders, 2007: 145-146). Thus, it allows for quantitative data to be analysed qualitatively and the other way around.

Time Horizon

The assignment is conducted using the *cross-sectional method*, as it is a “*study of a particular phenomenon at a particular time*” (Saunders, 2007:148). In this sense, it researches the choice of KORRES, a particular phenomenon, entering the alliance in February 2014, at a particular time. A cross-sectional method tries to explain how factors are related in different organizations, and in this form of method, studies are often based on interview conducted over a short period of time. This relates to the research question and the interview being conducted, as the interview is based on the decision they have made and try to undercover the choice, by explaining the factors leading up to it. A *longitudinal study* would not be suitable for this research, since KORRES have just entered the alliance, and there has not been any change or development yet, which is a main factor of a longitudinal study (Saunders, 2007: 148).

Primary Data

As argued earlier, the mixed methods approach is used throughout the thesis as it allows the use of quantitative and qualitative data, which is very important for the research, as it will give the possibility for triangulation throughout the assignment (Saunders, 2007: 145-147).

The research *primary* and *qualitative data* is based on an interview with Isabella Sakarellou, Head of Export Marketing & Business Development, from KORRES. Collecting primary data through this interview, allows getting insight into the company, and obtains information that might not be visible or available to the public. It is furthermore helpful in better understanding the choice of KORRES, and the interview will be used as a triangulation to the findings and

conclusion. The interview helped in answering some of the questions regarding the entry strategy, and gave insight to the idea behind the alliance. I deem Isabella as an expert within her field, as she works with export marketing and business development everyday, and has had a part in the entry strategy of KORRES. Thus, the information given from Isabella Sakarellou is valid and increases the validation of the assignment. The interview is placed in appendix 15, and the answers are both listed and directly transcribed. Some of the statements in the interview are used throughout the assignment.

A threat to the reliability and validity of the research data can be the participant bias in the interview. Isabella Sakarellou may have her own opinion of what is right to do and speaks for the company when being interviewed (Saunders, 2006:149). Observer error and bias may also be a threat, as research and data can be interpreted differently, and questions can be asked in different ways (Saunders, 2006, 149-150).

Secondary Data

The research's *secondary data* consists of both *qualitative and quantitative data*, and consists of findings through websites, books, statistics, index ranking and researches that are used as basic information, in order to get a better understanding of the different concepts, and necessary for further involvement in the research. The quantitative data is *index rankings, statistics and websites*, which answers questions as "how many" or "how much". The qualitative data is the different *articles, books and website* with general information (Saunders, 2006). Some of the websites used to gather information are *The Economist, Bloomberg, Indexmundi, The World Bank, CosmeticsDesign.com and In-Cosmetics.com*. All of the websites are highly regarded sources of information and therefore suitable for this research. They offer solid and valid information, which increases the validity of the assignment, and is trustworthy and all up to date, indicating from 2011 and forth. *The Economist* is a highly regarded website, and *The Economist Online* offers authoritative insight and opinion on international news, politics, business, finance, science and technology (The Economist, About, 2014). *Bloomberg* is the leader in Global Business and finance information. They give the analytics data, news and insight to give them a critical edge (Bloomberg, Company, 2014). *IN-Cosmetic* is the leading global platform for personal care ingredients and brings together the worlds leading personal care ingredients suppliers, formulators, R&D and marketing specialist (In-cosmetics, Home, 2014) and

CosmeticsDesign-Europe is the leading and highest read European news website in the cosmetics industry. These two websites publishes daily online news for cosmetics manufacturing companies on a free-access basis (CosmeticDesign-Europe, About, 2014). The books used for research are from highly respected authors, who are specialists within their field. Thus, all the data used are highly valid and will help answering the RQ.

Theories

Different theories are used throughout the thesis to help answer the RQ. Below is a description of the theories that have been chosen and are deemed as suitable for answering the RQ. The theories are applied in the respective order and as is suitable for the research.

PESTEL

A PESTEL analysis is a *descriptive model* that is used to analyse an environment and organization from different angles, in order to get a better and deeper understanding of the situation of the country and the environment. It is used as a tool to get an overview of the external industry that a firm is working in or wants to enter. The purpose is to describe the factors that can influence the firm and its performance. Thus it can be used as a guideline for a firm to find out how to act, what to be careful of, what factors that can be crucial to the firm and to what extent it can have an impact of the firm (Johnson et al. 2008).

The PESTEL stands for the *political, economical, social cultural, technological, legal and environmental factors* that can affect a business. All these factors are crucial to look into in any industry a business might be in, since it is factors that cannot be controlled (Johnson et al. 2008). When using a PESTEL, the focus of the different factors can vary. It depends on the organization and what the focus is on (see appendix 2).

The advantage of the PESTEL is that it is a simple framework that gives the broader understanding of the business environment. Furthermore it can enable an organization to anticipate future business threats or opportunities and thereby take actions and get a competitive advantage. And not to forget, it can be a tool for the firm to observe how attractive the business industry is and what the growth possibilities are. So all in all, a PESTEL can be used to discover the strength and weaknesses, threats and opportunities both of the country and for the firm (Johnson et al. 2008).

The use of a PESTEL has some limitations. First of all, if looking into every factor carefully, it could be very broad and the paper could lose focus. Secondly, the model is a static model, and since business environments are changing very fast, and the model is looking at a given time, the findings can quickly change, hence leading to expired findings and it can therefore be difficult to anticipate the future. Finally, just because the industry looks as a good growth opportunity, it does not necessarily mean that the firm can make a profit by entering. There can be many other factors, besides the economy, that can indicate whether or not it is a good investment market (Johnson et al. 2008).

This assignment is a research of KORRES and an analysis of the company and its choices regarding the Brazilian market. Hence the PESTEL gives an idea of the situation of the country and the environment, and possible growth opportunities that lie within the Brazilian market. Thus, this model is suitable, as the nature of the research focuses on conducting a country analysis. The model and analysis highlights factors that can be possible barriers to enter, and to be aware of. For this reason, this analysis can provide insight and be helpful in answering the RQ. It helps give an overview of the opportunities and threats in the country. This knowledge can provide us with some indications of the choice of KORRES and give some answers to why KORRES have done as they have, consider how they can deal with the possible threats and opportunities in the country and help reach a conclusion. In the beginning of the analysis, of each factor of the model, it describes which factors that will be included and analysed, and why these factors are chosen. The factors chosen are based on the nature of the research question, and are therefore factors that can influence KORRES and their decision. Therefore, the environmental factor is not discussed, as this does not have any affect on KORRES and do not influence the RQ. During the review of PESTEL and the findings of information, the factors influencing KORRES are not related and compared to KORRES before the discussion. Given that there are many factors in the PESTEL and much information to take into consideration, it can become confusing to analyse along the way.

Porter's Five Forces

When analysing an industry and looking at the factors influencing it, Michael Porter talks of five forces that are shaping it; the *competitive rivalry* within the industry, *bargaining power of suppliers*, *bargaining power of costumers*, *threats of new entrants* and *threats of substitute products* (see appendix 3).

According to Porter's model, the most important factor and the core of any competition that a business might face is the industry competition, to be exact the inter-rivalry known within the industry. The rivalry of the beauty industry depends on the four other factors and these four factors decide the level of competition (Mullins et al, 2007: 81-83).

The first factor that can influence the rivalry is the suppliers bargaining power. If there is a limited number of suppliers on the market, their bargaining power will be high, since they can set the standard of the products and prices. Bargaining power is increased if the cost of switching supplier is high, if prices on substitutes are high, if suppliers can threaten forward integration and if the supplier's product is a big part of the buyer's product.

The second factor is the substitute product, which are alternative products that deliver the same service and product. Substitute products can put a ceiling on the profitability of an industry, by limiting the price (Mullins et al, 2007: 84).

The third factor is the bargaining power of buyers, and when this is high, it can put a certain pressure on the industry concerning prices and in some cases influence the industry (Mullins et al, 2007: 83-84). The bargaining power can be measured by different factors, among others, the extent of buyer's concentration, the switching cost and how important the product is for the buyer (Mullins et al, 2007: 84).

The fourth factor that can influence the rivalry is the threat of new entrants. "New competitors add capacity to the industry and bring with them the need to gain market share, thereby making competition more intense" (Mullins et al, 2007: 82). Entry will be more difficult if there is strong economy of scale, strong capital requirements, if there exists strong product differentiation among the current players and if it is difficult to gain distribution and bring with them the need to gain market share, thereby making competition more intense" (Mullins et al, 2007: 82-83).

The model takes on a *static structure*, which might cause some problems, especially in an industry as the beauty and personal care industry that is changing fast, and where more companies are entering the industry every year, resulting in a change in the competitive structure. All of the four mentioned factors can change the level of industry rivalry.

In this research, the beauty and personal care industry in Brazil is analysed in order to establish the level of rivalry and look at the trend and structure. Therefore the industry is analysed, as if it was static. It determines how many players are in the market and who is the biggest competitor, if the market is attractive and how the ability to survive and compete against significant market players may affect the business. It helps answer questions like “How intense is the rivalry, how many players operates in the market, are there many substitutes, are switching costs low, how is the bargaining power of suppliers and buyers and is the threat of new entrants high?” All these questions will help answering the RQ, and be part of the conclusion, as they can shed light over the beauty industry in Brazil. The bargaining power of suppliers is analysed from the view of KORRES and Avon, since they are part of the alliance. It can be difficult to analyse all of the suppliers in the Brazilian market, as there are many manufacturers operating in the market, some national others international, and therefore it can be difficult to get a focus on where the products are being produced. Thus limiting the focus to the suppliers of KORRES and Avon makes the assignment more focused.

The model can give an idea of the industry structure, and help to analyse the distribution channel in Brazil. Given that the distribution channel in Brazil is part of the RQ, this type of model and analysis is deem suitable, as it looks to be the ideal way to analyse the different distribution channels in the country. As it is specifically used for industries, and can therefore determine the main barriers to the industry and help to explain the choice of KORRES to enter the alliance (Mullins et al, 2007: 84).

SWOT-model

A SWOT-model is a tool used by companies to get an overview of its internal and external environment, thus making it *descriptive* (Fine, 2009). It depicts the internal and external environmental factors of a company and can help in the process of strategic planning. It consists of the company’s internal environmental factors, which is the *Strength* and *Weakness*, and the external factors, which are the *Opportunities* and *Treats*. The SWOT-model sums up the most important factors, and is a guideline for the company of what threats to be aware of, how they can stay competitive with their strength, where the company might lack resources and is weak, and how the company can proceed in the industry with the opportunities they are given (Fine, 2009). It is not a very thorough model, but the purpose for using a SWOT, is to help establish and

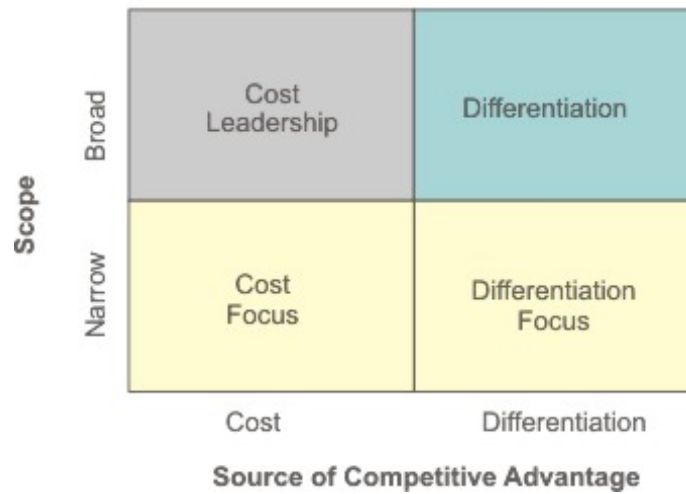
highlight the problems and opportunities for a company. It is a tool to give an overview of the situation of the country and industry and can help narrow and outline the findings (Fine, 2009). Therefore, for the purpose of this paper it is sufficient.

The model differs from PESTEL and Porter's five forces, as it does not have any specific factors to take into consideration when applying it, as the two other models have. It is based on the findings, and can therefore differ, regarding the situation analysed and the findings found. It is used to sum up the findings of KORRES, the PESTEL and Porter's five forces analysis, and thereby used as a tool to answer the RQ. In an assignment, where there is more than one research question, and many factors to take into consideration when answering the RQ, it is useful, as it gives structure to the findings.

Porter's generic strategies in a Niche Market

Michael Porter states in his book "Competitive advantage: Creating and sustaining superior performance" (Porter, 1998), that for a business to be competitive and have competitive advantage in a niche market, a business needs to differentiate itself. He identifies three generic strategies: *Cost leadership*, *Differentiation* and *Focus* (Porter, 1998). *The cost leadership* is about how you achieve competitive advantage when your company gets the same benefits as the competitors but at a lower price. Here there are no frills. *Differentiation strategy* is where the company differentiates itself and its products. It creates unique desirable products and service for the consumers. Thus the focus is not on the price, but on the value added to the product. Last is the *Focus* where the company offers a specialized service in a niche market. Porter (1998) further subdivides the focus strategy into two parts: *Cost Focus* and *Differentiation Focus*. Whether a company is using a *Cost Focus* or *Differentiation Focus* the key is to add value to the products so they become more attractive in the eyes of the consumers. It is very important for a company to identify their competitive advantage in order to stay competitive and be aware of this advantage in relation to the competition. When they have identified their resources and capabilities, it is easier to distinguish the competencies of the company (Porter, 1998).

Figure 1: Porter's Generic Strategies



Critics of the strategies argue that cost leadership does not sell products itself and more needs to be done than simply lowering the price. Differentiation can be used as a tool to sell more products, and boost the sales volume, instead of charging a high price and additional prices, high or low, can be used as a differentiation strategy. Choosing one single strategy may harm the firm since costumers often seeks multi-dimensional satisfaction such as a combination of quality, price, convenience and style. The critics of the strategy argue that Porter never defines competitive advantage, only how it can be obtained (quickMBA, 2014).

In this assignment, Porter's generic strategy framework is used as a source for a better understanding of the competencies of KORRES. The strategy is used to help place KORRES within the framework and analyse which strategy they are using in the European market and which strategy they are going to use when entering Brazil. The framework is used as a tool and guideline to tell if KORRES changes the strategy when entering with the alliance, if they can keep their brand positioning when entering, and how this can affect the brand identity. The generic strategy is used together with Kapferer's identity prism (2008), as these two models can help identifying factors that can influence the brand identity and positioning.

Kapferer's Brand Identity Prism Model

In his so-called *Brand Identity Prism*, Jean-Noël Kapferer (2008) identifies six aspects of brand identity: (1) *Physique*, (2) *Personality*, (3) *Culture*, (4) *Relationship*, (5) *Reflection* and (6) *Self-concept*. These six aspects together create the brand identity, which provide the framework for overall coherence. According to Kapferer (2008), brand identity is the essence of the brand, which contains the values of the brand and makes it unique. Brand identity and brand positioning are the two essential tools in brand management, because of modern competition. Identity draws upon the brand's roots and heritage – everything that gives it its unique authority and legitimacy within a realm of precise values and benefits. A brand message is the outward expression of the brand's inner substance. Kapferer argues that when one of the factors in the prism changes, the brand identity change. Brand identity should be concise, and for it to be successful globally, the strategic implementation should not be delegated to the local level (Kapferer, 2008: 489).

Physique is the physical specificities and qualities of the product, and is the tangible values. This is the first step in developing a brand.

Personality is obtained by communicating a brand gradually, which builds up personality and character. “*The way in which it speaks of its products or services shows what kind of person it would be.*” (Kapferer, 2008: 183).

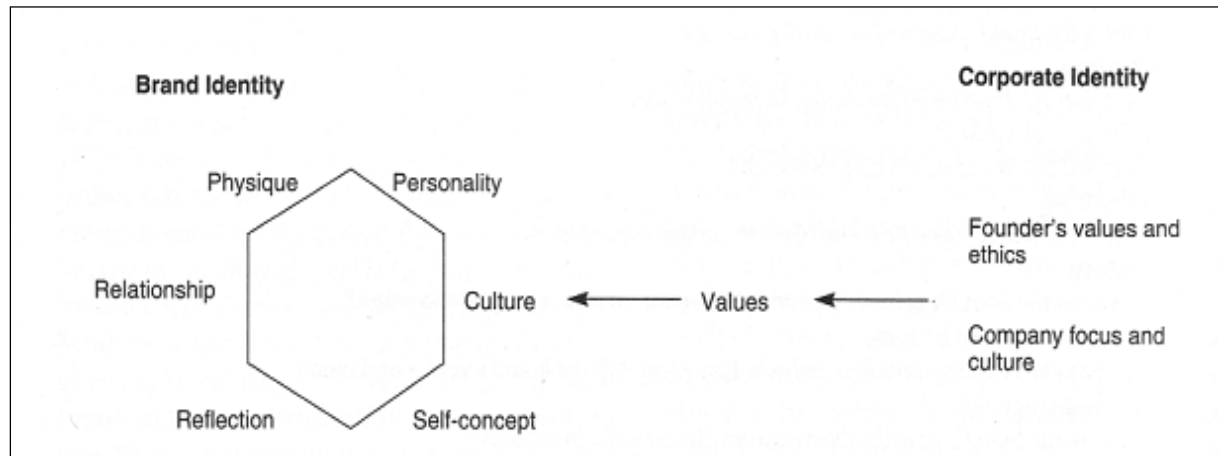
Culture is the set of values feeding the brand's inspiration – a brand should have its own culture, from where every product derives. The culture is the basic principles governing the brand in its outward signs (products and communication). The culture is the core of the brand and what links the brand to the firm, because brand identity consists of the corporate culture. Service is by definition a *relationship* and is the way the brand acts, delivers services, and relates to its customers.

Reflection is the image of the buyer or user. It is important to separate reflection from target, because the reflection should contain a picture of how the customer wishes to be seen. This is very important, because consumers use brands to build their own identity.

Last is the *self-concept*, which is the target's own internal mirror. Through our attitude towards certain brands, we develop a certain type of inner relationship with our selves (Kapferer, 2008).

The identity prism has an external- and internal focus. The relationship and the culture, bridge the gap between sender and recipient. The model has an outside in and an inside-out perspective, which makes it holistic. The aspects to the left (see prism) are social facets, which gives the brand its outward expression. The aspects to the right are incorporated within the brand itself. A well-

established brand has to be able to be considered as a person (*picture of sender*) through the physique and personality, and as the stereotypical user (*picture of receiver*) through reflection and self-concept (Kapferer, 2008).



Source: (Kapferer, 2008: 206)

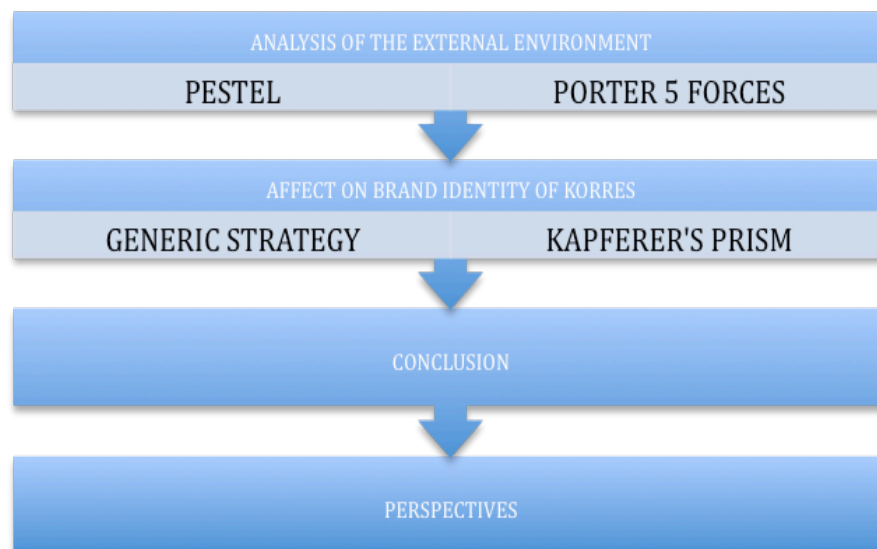
This model is used as a tool, to investigate which factors of the model are influenced with the new entry strategy, thus affecting the brand identity. It can help determine how the brand identity can change due to the alliance, and what consequences the alliance can have for the brand. It is used together with Porter's generic strategy regarding positioning, as they are the two most essential tools in brand management.

Kapferer's ideas, on *brand extension* and building brands in emerging countries is moreover used in the assignment, to give an idea of how the brand identity of KORRES can change, and the reasons behind the choice. Kapferer (2008) argues that there is a contradiction between creating competitive advantage by creating value and reducing the cost, when extending the brand globally. A company cannot choose both (Kapferer, 2008: 480). Especially within the beauty industry, he argues that mass-market products have to adapt much more in form of packaging and labeling when entering a new market. Luxury products should be seen as global and women should be able to buy the same product, no matter where in the world they are. If luxury products become over adapted, they lose their value (Kapferer, 2008: 481). Adaption to the new market is necessary for growth, but it is a fine line, and it is a good idea to set up factories and produce the products in the country in question to get success. It can increase the status of the company as it

creates jobs (Kapferer, 2008: 484). He argues that global brands are universal stereotypes, and each brand should be based on consumer insight (Kapferer, 2008: 488).

The prism and theory on brand identity and brand building are used in the assignment, since the RQ is based on how the brand identity will be affected by the alliance. Therefore the model and arguments are suitable for partly answering the RQ, as they focus on brand identity and since the model takes the different factors of sender and receiver, and external and internal, into consideration. It appears, as most of these factors are affected by the alliance, hence the choice in theory. The review of the prism is an analysis and discussion at the same time, in contrary to PESTEL. This is due to the fact that information on the alliance and direct selling are given prior to the analysis of the brand identity.

Below is an outline of the theories and how they are used in the thesis.



Delimitations

The delimitations are briefly explained, and will explain some of the choices used throughout the assignment, such as the use of the same currency and comparison of countries.

Currency: Throughout the paper, the currency used will be transformed into Euro, to give transparency in the assignment, as it might be confusing to use both Euros, US dollar and the Brazilian Real. Thus, R\$ will be converted with the respectively rates: €1/1,36\$. R\$1/€0,32 (Oanda, 2014)

Comparison: This is not a comparative study, but it is necessary to draw parallels to the European and US market on certain aspects to give a better understanding of Brazil and its market. When discussing and analysing import taxes, Brazil will be compared to Europe and the US, to give an idea of how high the taxes are in Brazil. Europe, to give an idea of how attractive the European market is, and to give an idea of why the European market is the main market for KORRES. The US will be used as a comparison as a country that is not a member of Europe, but where KORRES does business. This will give a deeper insight, as it compares two countries that are not a member of Europe, but where KORRES have entered. Thus the tax difference will be clear and can help explain why KORRES have chosen the alliance.

PESTEL: In the PESTEL analysis, the environmental factors will not be taken into consideration. On the basis of conducted research, this factor does not seem to have any influence on the alliance. It will make more sense to analyse Avon, and how they deal with environmental issues, since they will be the one producing and selling the products.

SWOT: The SWOT model is used as a tool to sum up and gather the findings, thus not all of the factors in the SWOT will be discussed and analysed in the section, when it is used as a sub conclusion, to answer the first part of the RQ.

Case study: KORRES could have been compared to another company working in Brazil, or wishing to enter, to give a new angle to the thesis, but the focus is on Brazil and KORRES, thus this was not done and would take up to much space. The thesis could also have been conducted,

by choosing two countries to focus on, to compare the differences, and this way obtain insight for the choice of the entry strategy, but this would furthermore be time-consuming and take up to much space due to pages limitations.

In-depth analysis of KORRES and Avon: The in-depth analysis of KORRES will be supported with numbers from the annual report, to give an overview of the company. Avon on the other hand, will not be discussed in details, but briefly be explained, so the reader has basic knowledge of the firm. This choice is due to the nature of the thesis, as it is not an analysis of Avon as a firm. But since Avon plays a part in the alliance, it is important to highlight the most important factors of the firm. Avon could have been explained in more details, the information that will be given appears to be adequate.

Several other models for the analysis part: There are always many different models to choose among when conducting an analysis and several other models could have been used. The OLI-model or Barney's VRIN model could have been used for the company and competitive advantage analysis, however the models chosen seems more suitable for the research, since it gives a picture of how a company can change their strategy, by changing focus on positioning and competitive advantage. The personality approach by Aaker or the consumer-based approach by Keller could have been used for identifying the brand and how it could be affected by the alliance. These models could give another angle to the brand identity, but since Kapferer takes several factors into consideration, and combine these two models, his basic identity prism seemed most appropriate.

Costumer interview: Throughout the thesis, primary data from an interview from KORRES is used. There could have been conducted interview with the new target group in Brazil, in order to get a better understanding of how the brand identity of KORRES is perceived by this target group. This would be very difficult to obtain, though, as there is a barrier of distance and it would be difficult to get a contact person in Avon. Additionally, an interview like this would probably be more suitable when Avon starts selling the products and KORRES is in the market.

Cosmetics and toiletries covers the following products: Baby care, bath and shower, deodorants, hair care, coloured cosmetics, men's grooming, oral hygiene, fragrances, skin care, depilatories,

sun care and premium cosmetics. Since KORRES sells many different products, the mentioned products cover the beauty and personal care industry, as they are all included in the product range of KORRES.

Numbers of KORRES Group: The annual report and the company turnover, profit margin etc., will be based on the numbers from KORRES Group, and not KORRES Company. This is due to the fact, that the annual report of the Company only accounts for the part the owners own. This means that the profit of the company is only stated as 70% of the total profit, if the owners only own 70% of the company. In the group, all of the companies in the group are accounted for. The total profit is what the companies have achieved, without taking the ownership into account.

Definitions

Backward integration: a form of vertical integration that involves the purchase of suppliers. Companies will pursue backward integration when it will result in improved efficiency and cost savings. For example, backward integration might cut transportation costs, improve profit margins and make the firm more competitive (Mullins et al. 2007: 51).

Mass products: is the production of a large amount of standardized products.

Luxury products (or goods): are products that are not essential to buy. They are often more expensive and primarily purchased by people with more wealth and income. In other words, as people receive more income, they devote an increasingly larger share of income to the purchase of luxury goods.

OTC products: Over The Counter (Medication)

EAT: Earnings Before Taxes

EBIDTA: Earnings Before Interest, Taxes, Depreciation and Amortisation.

Economies of scale: "Long run average cost falls, as output rises" (Begg, 2006:105)

Section 2

Characteristics of KORRES

This section focuses on the company KORRES and describes their current situation. The company Avon will also briefly be described.

The Greek pharmacist George Korres founded the brand and beauty company “KORRES Natural Products” in 1996. His vision was to create skin care products that were produced in a mild and environmentally friendly way. Therefore, he started creating natural active products with a focus on both skin and environment (The Korres pharmacy, 2014). Today KORRES Natural Products is a global company that accounts for 252 employees (October 2013). The parent company is seated in Athens, and led by George Korres and his wife Lena Korres (How we started, 2014). In Greece alone the company employs and helps thousands of farmers, unions and institutions (Cooperations, 2014). The company is listed among the 500 highest developing companies in Europe and is an established brand name of top-quality products (Business awards, 2014). In 2013 the company had, a gross profit of €24,221 thousand compared to €24,831 thousand in FY2012, presenting a drop of -2,5%. The gross profit margin stood at 61,7% from 62% in the respective period of FY2012, a drop of -2%, eliminating the drop of the first half coming from the increased promo actions, different sales allocation and different mix, thus reflecting the anticipated regulation (Annual Report, 2013: 4). The adjusted EBITDA experienced a drop of -11%, from €7,9 million FY2012 to €7 million FY2013. Additionally, the earnings after taxes also experienced a drop of -€4,5 million FY 2013 vs. -€4,2 million FY2012 (Annual Report, 2013). The company has been affected by the Greek crisis, as they have experienced a slightly decrease in sales and profit since 2011 (Annual Report, 2011+2012), but despite the recession of the Greek economy, the company has still managed to achieve market share improvements in the pharmacy channel in Greece in 2013, and the company has improved all key product categories such as face, body and sun care products with new innovative products (Annual Report, 2013). Estimations for 2014 looks good, especially in the international markets, due to the agreement with Avon (Annual Report, 2013), but also due to the continuous focus on the European market,

where KORRES have most of their distributors (Distributor, 2014). Compared to other family-owned companies in Europe, KORRES is small, both in revenues and company size (Campden, 2012).

The portfolio consists of more than 500 natural products within skin care, hair care and coloured cosmetics. The products are manufactured and sold in more than 500 pharmacies in Greece, and through different distributors and stores in 30 countries around the world (Distributor, 2014). The brand is present in Europe, Middle East, the USA and Asia. The simple philosophy of the brand has its roots in the natural and/or certified organic ingredients of the highest quality. The key to the KORRES vision is ethical, environmental and social programs that support local communities and endangered plants, while also promoting the production of Greek, organic active extracts of superior quality (Timeline, 2014). KORRES' target group is the modern, critical consumer who wishes to know what the products contain, and how they are seen in relation to environmental and ethical questions (Research, 2014). The soul of KORRES consists of four factors: *natural herbs and plants*, *co-operation* with organic farmers and environmentally friendly cultivation, *organic extraction* with the best methods to persevere the quality and *research* with international teams (Our Heart, 2014).

The Greek flora is known for its wealth in herbs consisting of 6500 different kinds of herbs and plants, 1200 of which can be found in the Greek flora alone. According to KORRES, all of the formulations are developed, and based on natural or certified organic ingredients (Greek Flora, 2014). KORRES emphasises the methods used to extract the herbs and ingredients in the products. They want the extraction process to be as gentle as possible so the active ingredients in the herbs and plants are preserved, and the environment is affected as little as possible (Extractions, 2014). Furthermore KORRES emphasises the co-operation with small farmers, they takes part in agreements about protecting herbs and plants that are suffering from distinction, and they supports farmers that wishes to re-adjust their farming into an organic production (Cooperations, 2014).

When it comes to research the company is co-operating with University of Athens and research groups all over the world, who looks into the different advantage of natural products. These research results are the background for the development of the products of KORRES. The products have at least 92.8% natural content, are PH-neutral, and do not contain parabens or other bi-products (Product development, 2014). Moreover the products contain herbs only found in

Greece, which makes the ingredients very unique. In addition, the products are not animal tested, and the packaging of the products is recyclable including materials like paper, glass, polypropylene and other plastics (Product development, 2014).

The brand is the second best in Greek pharmacies providing it with a high status. KORRES have however, also gained prestige outside Greece with 12.000 retailers globally.

KORRES have had a successful growth since 2006. Over the five-year period from 2006-2011 they had a compounded annual growth rate of 27%, which indicates a loyal consumer base, a strong brand, and a good marketing strategy (Exportleaders, 2012). The positive growth rate is also a sign of more investment, innovation in new products and product range, and internationalization.

The company's international expansion strategy is mainly based on store openings, investing in the help of highly qualified business people to open the stores abroad. These skilled people then transfer the valuable operational knowledge assuring the store to be on the right track and the partners to get success. KORRES have their own store concept of appearance, arrangement, as well as guidelines for customer service. When a store has been set up, people from KORRES make follow ups, and visit the store to make sure it lives up to the standard and heart of KORRES. The point of this is to create a synergy through the stores all over the world (Store opening, 2014). Besides store opening, KORRES works with distributors and use them as an expansion strategy (Distributers, 2014). The distributors are placed almost all over the world. Even though their main expansion strategy is store openings, it appears as if there are more distributors than stores, and that most of the stores are primarily seated in Europe (Global locations, 2014).

At first glance, the target group varies, given that KORRES have products for different age groups in the portfolio. The two key categories are the face and body products (Annual Report 2013). In the face care category they have products for oily young skin, first wrinkles, anti-ageing, firming, and extra dry-mature. Based on this product range, it gives the impression that their main focus is wrinkles and anti-ageing products, thus targeting women of 35+, but they still have products for young people as well (Face, 2014). The rest of their portfolio contains hair care products, make-up, cleansing products, fragrance, sun care, body and dailies, which can be used from the age of 18+. Hence, products used by women at all ages (Korres, 2014). The product

prices are in the high end of the price range. In consequence of the green brand made on natural products with an environmentally friendly production, and high innovation, together with the high product price, it would seem like their main target group is middle aged, upper-class women. It is women who want to live healthy, who can afford products that are organic and natural, and who have jobs with a good income. According to KORRES, they produce niche and premium products, which supports these observations (Timeline, 2014). The products have added value in form of being innovative, having natural and organic content, and nice packaging. KORRES distinguish themselves as superior to other products, as they have been tested “best in test” both in vitro and ex vitro (Interview 1, appendix 15). They perceive themselves as a chameleon. They state that if they stand together with scientific products they look beautiful, if they stand together with natural products they look scientific, and if they stand together with beautiful products they offer something different. This is according to Sakarellou (Interview 1) the added value to the brand.

After having characterized KORRES, it appears, the main strength of the company is the unique and natural products with the special ingredients. KORRES is a well-established brand among the top 500 of the highest developed companies. They have a global presence and a high status in Greece. The company has a positive turnover and profit, and has experienced growth since 2006. They have increased their market share in the global market, they are innovative, and continue their development in product categories. They have collaborations with farmers and suppliers, which give them a competitive advantage, and they are concerned about the environment, ethical issues and social programs. This is one of KORRES’s strengths as it reflects their vision.

The main weakness of the company is the last year’s drop in earnings, the prices of the products and the company size. It looks as if there is a conflict between the target group and the price. KORRES states that the products are for everyone, and that they produces products at an affordable price, but the prices of the products are in the high end. However, if they only focus on the upper-class women as their main target group, the prices would be suitable and in line with what they state. The characteristics of KORRES have now been examined, and the next section will focus on the characteristics of Brazil and the beauty industry.

Section 3

Characteristics of Brazil and The Beauty Industry

To answer the research question: “*Which country specific factors of Brazil and the beauty industry have led to – or affected the choice of KORRES to enter with an alliance?*” it is important first to make an external environmental analysis of the Brazilian market. Since the first section of the paper focuses on the external environment on a macro and meso level, a PESTEL model is used together with Porter’s Five Forces framework commonly used for industry analysis. The analysis contributes with an overview of how attractive Brazil is as a country, and which factors that can influence the decision of KORRES. First it looks at the beauty market and the general development, then it looks into who the main competitors in the Brazilian beauty market are, and finally it analyses the intensity of rivalry in the industry. This helps answer the research question by shedding light on the different factors affecting the decision. In this way the two models can be combined as they support each other, and each focuses on different aspects of the external environment. PESTEL takes the overall approach to the analysis of Brazil, and Porter’s Five Forces is applied for a more detailed and narrow analysis of the beauty and personal care industry in the country.

As a sub-conclusion to the external analysis, and in order to determine the factors that can influence the entry strategy of KORRES, a SWOT analysis is used as a tool to identify the strengths and weaknesses of KORRES, the opportunities and threats that are present in Brazil, and the country’s beauty and personal care industry. The SWOT highlights the main findings and give an idea of to what extent these factors have influenced the decision of KORRES, and thus be a tool to answer the first part of the RQ.

PESTEL Analysis of Brazil

The PESTEL analysis in this section analyses Brazil as a market and the elements influencing it in order to get knowledge of the situation and to create an overview of how attractive the country

is. The analysis examines which challenges and barriers a company could encounter when entering the market. Hence, it gives facts and knowledge of the country that can be used when analysing the decision of KORRES. The section ends with a discussion based on the findings.

Political

This section examines Brazil's political and economic development by outlining the political regimes from the late 20th century till today. This will give an idea of the country's political stability, and how this influences a company entering the market. Furthermore, it examines to what extent there is corruption.

Fernando Collor de Mello, who was Brazil's first democratically elected president (1989), succeeded in removing existing barriers to importing of goods. Fernando Henrique Cardoso replaced him as president in 1995. During Cardoso's rule, Brazil struggled with economic instability and high inflation rates, which he tried to change with a tight monetary policy to decrease the inflation rate and to bring balance to the economy. He introduced Plano Real, which among others contained the introduction to a new currency for the country (Brazil Vista, Brazil's new republic, 2014). The continuation of a strict monetary policy and Plano Real helped the country to reach an inflation rate of 3% in 1998 (Indexmundi, Brazil Inflation rate, 2014). Unfortunately, it had some severe consequences to the overall production level of the country, as the industry production fell and the state debt rose to over 55% of the annual BNP. This led to a new struggle with a rising inflation rate and an increased tax level.

These socio-economic problems helped Luís Inácio Lula da Silva to be elected in 2002, which became the start of economic growth for the country and marked a shift in the country's political policy (Brasil Vista, 2013). It was the first time the country had a working-class president, and during the following years Silva kept the strict fiscal policy in order to stabilize the inflation rate and reduce debt. Lula came from the workers party and was interested in fighting the crime and corruption that was noticeable in the country. He also wanted to make Brazil more visible on the international market, and therefore he instituted reforms aimed directly at making Brazil more global. After a few years the economy started to shine, which indicated a country that had finally reached political stability and economic growth (BBC News, 2010). Since 2011 the president has been Dilma Vana Rousseff, who is the country's first female president (Brazilian Business, 2008).

Over the years there have been many cases of political corruption in Brazil, and this is still ongoing today (The economist, corruption in Brazil, 2010). Most corruption scandals stem from politics, thus corruption among companies is rare (The economist, corruption in Brazil, 2010). It has so far not been possible to eliminate corruption, most likely because it is so deeply rooted in the government and its actions. Every government and president appears to have had his or her case. Even Lula, who was an advocate for eliminating corruption, has been accused of being involved in a case about his election campaign being funded by a secret account in the Bahamas (H.J. 2013).

Sub Conclusion

Brazil has moved from dictatorship to democracy, and the country has had political stability the last ten years. During president Lula the country saw economic growth and stability, social welfare and became more international; a political strategy Rousseff is now attempting follow. Corruption has been a constant factor in politics and is a major problem for the country and is a difficult issue to deal with.

Economical Factors

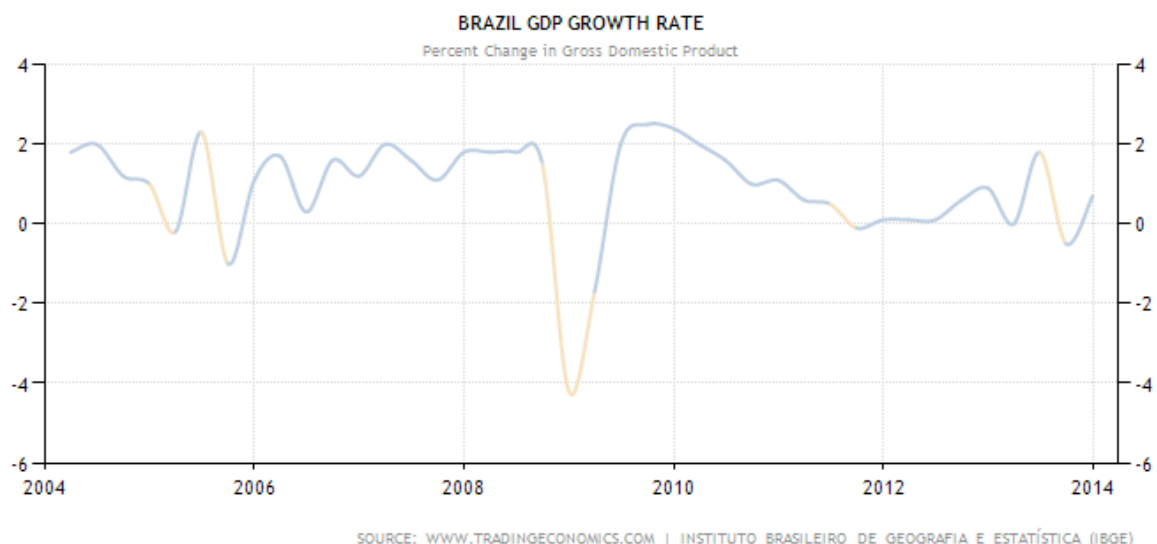
This section looks into Brazil's economy by examining which factors that drives the country's economy today. This is important in answering the research questions, because it is risky to enter a country with a decreasing economy, as it can affect the business and prove to be an unstable investment. It sheds light over the last ten years, and gives an idea of how the country has developed. The GDP growth rate is analysed together with the interest rate, inflation rate, currency, exchange rate, BoP, BoT and import. These factors help determine how attractive the market is to enter. Consequently, if the country has a slow growth and economy, the country becomes less attractive, as it might be difficult to sell luxury goods.

Brazil is a member of BRIC: the developing countries of Brazil, Russia, India and China. These four countries were in 2001 estimated to be some of the world's leading economies by 2050 by Jim O'Neil of Goldman Sachs (see appendix 4). They are all countries that have grown significantly within the last few years, and they are said to be good investment opportunities as they are expanding on trade and the economies continue to grow. Hence, these countries are leading to an increased middle class population. Together the countries compromise more than

2.8 billion people or 40 percent of the world's population and account for more than 25 percent of global GDP (globalsherpa, 2013).

According to predictions of Goldman Sachs, being a large population country, Brazil could become the 5th biggest economy in the world by 2050, possibly rivalling the G-7 countries in economic importance. In recent years the country has been one of the fastest growing economies in the world primarily due to its growing export, which has been of great importance for the government. The primary resources exported are agriculture, mining and manufacturing production (globalsherpa, 2013).

Brazils GDP increased by 1.50 % in the second quarter of 2013. From 1996-2013 Brazil's GDP growth rate average was 0.8% reaching a historical high of 4.5% in September 1996 and a record low of -4.2% in December 2008 (GDP Growth rate, 2014). The low number in 2008 might be due to the economic crisis that affected every economy in the world. The GDP has seen an increased growth, and in 2010 it was 7,5%. Since 2010 it has decreased and has had a very slow growth rate. It fell to 3% in 2011, and further to 0,9% in 2012. The country has had a good stable growth the last decade, and it even managed to overcome the economic crisis in 2008 (IndexMundi, 2014). The GDP is estimated to rise to 2.5% in 2014. This is, however, not as high as expected, because of North American and Chinese economies moderating this year, and hence reducing demand for raw materials and manufactured export from Brazil (Biller, 2013).



Source: Trading Economics

Growth rate is reported by the IBGE (Instituto Brasileiro de Geografia e Estatística), Brazil.

In August 2013 the board of Brazil's Central Bank, led by president Alexandre Tomba, voted to raise the interest rate by a half percent to 9.5%. The rate has continuously been raised since October 2012, starting from 7.3%. The committee, who intend to keep the inflation rate down and control the economy, supported this decision. It is estimated that it will increase further in 2014 (Malinowski, 2013). Rousseff has made it one of her main goals to decrease the interest rate and grow the economy. The Central Bank of Brazil has stepped up attempts to prevent a declining Real from undercutting the largest rate increase among the world's major central banks by pushing inflation above its target range. According to JPMorgan economist Fabio Akira, there was introduced an intervention plan of €43,8 billion in order to help buy the currency, but the policy makers have maintained the pace of the interest rate increase as shown in appendix 5 (Malinowski, 2013).

The inflation rate is currently 6.37% (May 2014), and has increased since July 2012. The estimated rate for 2013 was 4.38%, the same as during the period in 2012. The increased number is close to the government's maximum target of 6.5% (Inflation rate, 2014) (See appendix 6). This number is well above the Central Bank's target of 4,5% (The Economist, Brazil's fiscal policy, 2011).

The Brazilian Real follows a floating exchange rate regime letting the currency adjust. The Real decreased to R\$2.26 in March from R\$2.32 in February 2014 (Real, 2014). Compared to other currencies the Real is high and has increased the last two years (See appendix 7). One of the reasons for this is the high tax and tariffs the government has placed on imports and investors, as it leads to a decline in the FDI and the incoming currency. The bankers blame the weakening of the Real on the currency fight between the U.S. dollar, Euro and Yen; currencies that are being lowered in order to stay competitive on the global market (Rapoza, 2013).

Additionally, the weak currency puts pressure on the inflation rate and increases the prices of goods and services. The Real has been underperforming most emerging market currencies this year. The dollar gained 14.2% against the Real year-to-date and the Mexican Peso has made similar gains (Rapoza, 2013).

This uncertainty for the exchange rate is causing difficulties for the firms to plan ahead, denting GDP growth expectations for 2014. But a plan is being put into action that gives the Central Bank of Brazil more room to lift the interest rate. This will help to stabilize the inflation rate by

reducing it to the centre of the target zone between 2.5-6.5% and it will make the currency stronger (The economist Intelligent Unit, 2013). The negative side effect, however, is partly seen among the increased middle-income population that due to increased loans and higher interest rates are having difficulties paying their loans back, and this can cause an economic crises (Djoefblad, 2014).

The balance of payment (BoP) was running a deficit of 2,12 % of GDP in January 2012. The BoP has since 2008 decreased and was measured in 2013 to run a deficit of 3,6% of GDP (BoP, 2014). A restrained global trade, political challenges in form of fiscal policies and softer commodity prices caused this together with the decrease in import. It also indicates that government spending and revenues are high (Brazil Central Government, 2014)(See appendix 8). However, the BoP is expected to improve slightly within the next years due to increased global trade (The World Bank, 2012). A country that runs a current account deficit is said to have strong imports, low saving accounts and high personal consumption rate as a percentage of disposable income (BoP, 2014).

Brazil's economy is at the moment running a trade surplus of €396 million, due to its mining and agricultural products. Brazil normally has trade surplus and has become highly dependent on their export (BoT, 2014)(Appendix 9).

In the top ten most popular items imported to Brazil, beauty & health comes in as number ten (Dutycalculator, 2014). This shows that beauty products are very popular.

The former president Lula introduced programs that were aimed at lifting the poor out of poverty. These programs have paid off and the majority of the population is now middle class people. The growing middle class and the fast growing population has increased the demand for goods and services, also leading to economic growth (World Bank, 2010), and a remarkable growth in job creation over the last decade (Employed persons, 2014) (Appendix 10). This is caused by the increase in people, but also due to the governments higher taxes on imported goods, in order to get the manufacturing and agricultural production going and create more jobs (The Economist, Focus Brazil, 2011).

Sub Conclusion

Brazil could be the 5th biggest economy by 2050. The economy has been growing the last ten years, but has since 2010 slowed down and had a slow growth rate and GDP of only 2,5% in 2013. This is a huge fall from 7,5% in 2010. There is an increasing middle-class, which could signify growing consumption, but GDP is decreasing. The interest rate has since president Lula came to office decreased, and has helped obtain a stable economy. The last two years it has increased, which can have a negative effect on the economy. The inflation rate is 6.37%, thus very close to the governments limit. It has increased after the economic crisis in 2008 and has kept rising, prospering the interest rate. The currency is weakening, and has lost value since 2012. The BoP runs a deficit and has done so since 2008, indicating a strong fiscal policy from the government. BoT mainly runs a surplus, indicating that export exceeds imports. This is in line with the government's fiscal policy, trying to boost the domestic production, which can be observed in the increase of jobs.

Social Cultural Factors

This section investigates how many people living in Brazil, the age structure, and poverty rate. Furthermore, it looks into beauty as a social part of the culture of Brazil, and examines to what extent beauty plays a role in everyday life. The above factors are important to analyse, to examine how attractive the country is, both regarding the new target group and social norms. If the target group and age structure do not fit the products, it does not make sense to enter. And if people do not pay attention to beauty, it might be risky to enter, as there might not be basis for sales.

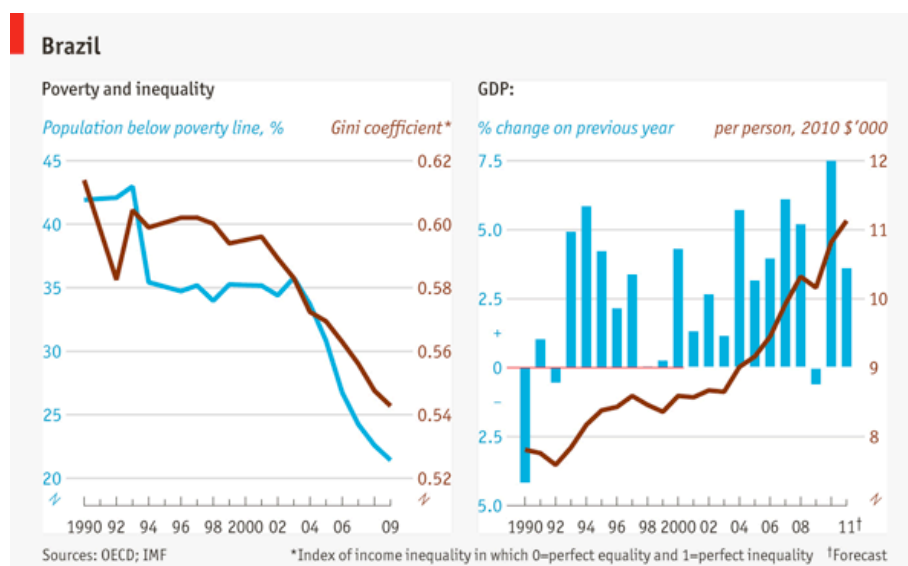
With more than 201 million residents, Brazil is the sixth most populous country in the world and the fifth biggest. It is the biggest country in Latin America holding the biggest economy. The median age structure is 30,3, and the majority of the population is between 25-54 years (See appendix 11). The language can be an obstacle if doing business in the country, since people in general speak poor English and mainly speaks Portuguese (CIA, 2013).

The general culture of Brazil is very different from that of Europe, regarding business, language, food, life style, customs, and the climate (Brazil Culture, 2014). In Brazil alone, there is a huge cultural diversity within the country, due to the country size and the country being a melting pot

of nationalities (Brazil Culture, 2014). Therefore, the difference between the two countries in all the above-mentioned factors seems even greater, since the two countries are placed on each their continent and have a distance between them of 9652.81 km. (Distance, 2014) (see appendix 12). It becomes difficult to do business in a country that alone is very diverse.

The unemployment rate was down to 5,2% in October 2013, from 5,4% in September 2013, indicating a fast growing market (Unemployment rate, 2014).

Brazil is a middle-income country, but has for many years had a high poverty rate. Statistics from the World Bank indicates that poverty has fallen remarkably from 21% in 2003 to 11% in 2009 and continues to drop. According the IBGE (Instituto Brasileiro de Geografia e Estatística), the 20% richest in the country have seen a decrease in their share of wealth within the last decade, while the 20% poorest have seen an increase from 2.6% to 3.5% in the same period (Worldbank, 2012). The social welfare program “Bolsa Família” introduced under the presidential of Lula, and continued by Rousseff, has mainly caused the reduction in poverty. The program is a fund that aims at lifting the poor out of poverty, by cash transfers and monthly stipendiums to the families that live below the poverty line. In return for the aid, the families have to place their children in schools, which helps increase the level of education. More than twelve million families are receiving the aid, and it has lifted more than twenty million people out of poverty between 2003-2009 (Worldbank, 2012). The program has had remarkable outcomes, and has contributed to an improved standard of living in Brazil (H.J & N.S. 2013).



Source: The Economist. <http://www.economist.com/blogs/dailychart/2011/11/focus>

In Brazil, beauty is a big part of the culture, and especially plastic surgery, which is very common, is a procedure that is being performed often. According to Dr. Julius Few, director of the Few Institute for Aesthetic Plastic Surgery, it is perceived as a status symbol, to have had plastic surgery (ABCNews, 2012). According to International Society of Aesthetic Plastic Surgeons, nearly fifteen million cosmetic procedures were performed across the world in 2012. Brazil was ranked as number two in 2011 of top twenty-five countries that perform the most cosmetic procedures, and liposuction and breast implants were the most popular invasive surgeries among the population (ISAPS, 2011). This makes Brazil one of the most popular countries in the world for cosmetic surgery. Due to the popularity of plastic surgery in Brazil, the government has made cosmetic surgeries deductible from income tax, and backdated the discounts for surgeries as early as 2004. The government believes that the additional income to those in the industry will outweigh the money lost to deduction (ABCNews, 2012). Beauty is a continuously growing market in Brazil, and according to Sao Paulo-based Brazilian Plastic Surgery Society consumers spent nearly €987 million in 2009. This was an increase from €855,46 million in 2008 (Bloomberg, 2010).

Sub Conclusion

Brazil has a growing middle-class; more people are entering the workforce and getting richer due to the entering in the labour force. The employment rate is increasing, and the poverty rate decreasing, which are good signs for the living standard. The median age structure is 30 years. Beauty is part of the culture and is seen as a status symbol. The culture in Brazil is very different from that of Europe and Greece. Brazil is a top ranked country regarding plastic surgery, and it looks, as beauty has become a brand of the country, including plastic surgery.

Technological Factors

The technological factors uncover one of the main issues in Brazil: the infrastructure. The section looks into the problems with the infrastructure, which factors influencing it and how the government is dealing with it. The above factor is important to analyse, because if the infrastructure is weak, it can be difficult to get products around through railroads, motorways etc., which can increase the costs for KORRES. This will make the market less attractive, and can be a factor of the chosen alliance.

Brazil has during the last ten years become a upcoming country, but even though it is the sixth biggest economy in the world, the country has failed in maintaining and investing in roads, ports, train tracks, electricity and the general infrastructure for years (The Economist: The road forsaken, 2012). This underinvestment has led to a weak infrastructure and might be a big problem for the future growth of the country, as it can put a strain on export and import opportunities. The World Economic Forum has ranked the quality of Brazils infrastructure as number 114th out of 148 countries surveyed (The economist: The Road to hell, 2013).

Brazil has a special system for projects and investments. If the government wants to hand a project to the private sector, they will hold an auction, granting the concession to the highest bidder, or sometimes the applicant who promise the lowest user charge. But the government has not auctioned many infrastructure projects since Lula was president, thus leading to an underinvested infrastructure (The Economist: The road to hell, 2013).

An investment program called PACI (Accelerated Growth Program) was introduced in 2007 that focused on improving the infrastructure in the country and in 2010 a follow up program was introduced, the PAC II. The PAC II focus was on transportation, energy, sanitation, housing and water. The PAC programs have helped establish more than twelve thousand private and public projects and due to the 2014 FIFA World Cup (ongoing) and 2016 Olympics that are being held in Brazil, the government has placed more emphasis on these programs (The World Cement, 2014). It is a necessity to improve the infrastructure in order to prepare for the mass attention the country will get, in view of the fact that improvements can lead to increase in investments. Better infrastructure means lower production cost in form of transportation (The Economist, The road to hell, 2013). Especially transportation, airports and ports are the main focus of the government. The PAC II program is set to spend €306,848 billion on infrastructure projects over the 2011-2014 periods and a further €202,112 billion from 2014 onwards. It is forecasted that the general spending in infrastructure will increase by 7,3% in 2013 and have an annual growth rate of 7,9% between 2012-2017 (The World Cement, 2014). But even though the PAC programs have been introduced, the investment rate and spending in infrastructure projects shows disappointing numbers. Not all of the money authorized for projects has been spent and the spending rate has slowed down in 2013 compared to 2012, which is a very unfortunate development (Conde, 2013).

There is still a long way to go, to get the country ready for the massive pressure the events will create, FIFA (ongoing) and the Olympics (upcoming), but the infrastructure is expected to improve significantly within the next few years and it is expected that it continues to be of high

importance for the government due to different reasons. One is the increased export that put pressure on the infrastructure in terms of railways and ports. In order to keep up with the development and rising export, the infrastructure needs to be improved and modernized. Another reason is the increased middle class that increases the demand for basic infrastructure needs such as energy production, electricity, distribution and transportation (The Economist: Brazilian energy, 2014). When people have more money, their spending goes up, as they can afford to buy more products, use more electricity and go travelling. Thus, there will be a pressure on the domestic production, leading to pressure on the infrastructure, to cope with the increasing demand in all areas. At the moment, Brazil is experiencing a huge increase in the consumption of electricity, which is partly caused by the increased middle class and their consumption habits (The Economist: Brazilian energy, 2014).

Sub Conclusion

The infrastructure of Brazil is weak at the moment, due to lack of focus and underinvestment from the government, and since they have not auctioned projects to the private sector. The FIFA and Olympics might help improve it, as the country needs to have an infrastructure that can handle the mass of people entering the market. But the projects are focused toward the World Cup and Olympics, not projects to increase the general standard of the infrastructure. The increased middle class, leading to increased consumption, might increase auctions and focus on improving the infrastructure. Besides this, the export can be an important factor in further infrastructure-projects and might help attract investors.

Legal Factors

The legal factors consider taxes on beauty and cosmetic products imported to Brazil and looks into what legal factors that can shape and influence decision making of companies when considering entering. Seeing that KORRES have chosen this form of alliance, it is important to examine if the import taxes can have anything to do with it.

At the moment the customs average tariffs is 13,56% (Tax Brazil, 2014), which is high compared to the average tariff in Europe of 3,27% (Tax Europe, 2014). The sectors that are most affected by the high tariff is machinery, plastic, chemicals, iron and steel, textile and footwear (Tariffs,

2014). There are three taxes that account for the import costs in Brazil: Import duty, Industrialized Product tax (IPI) and Merchandise and Service Circulation tax (ICMS), and the general tariffs depend on the product. Thus tariffs for perfumery, cosmetic or toilet preparations are different from that of steel and others. Beneath the chart for beauty and skincare is listed. The tariffs are on the following beauty products: Make-up preparations and skin care (other than medicament), sunscreen or sun tan preparations and manicure or pedicure (The Brazil Business, 2014).

Tax Name	Rate
Import Duty (outside Mercosul):	18.00 %
IPI:	22.00 %
ICMS:	25.00 %
PIS:	1.65 %
COFINS:	7.60 %

There are special ICMS regulations for this product that can make it subject to an ICMS rate of 18%.

(Source: The Brazil Business, 2014. For definitions of the taxes, see appendix 13).

Compared to EU, these numbers are high, since EU does not have import duty, as duty is not paid on consignments shipped within EU. Nor does EU have IPI, PIS or COFINS taxes. Members of EU have a sale tax (ICMS) between 20-25%, which makes trade between EU countries cheaper, than exporting to Brazil (Dutycalculator.com, 2014). EU has free trade to enhance trade between member countries and make it easy for the labour force to float between member countries (European Union, 2014).

Sub Conclusion

Brazil is a country with high taxes, and especially taxes for cosmetic products are higher in Brazil than EU, making it more expensive and difficult to enter the market. The government is reducing taxes on the domestic export, which imported products are suffering under due to a high customs average tariff.

Discussion of PESTEL

Some of the main factors of Brazil have been analysed, and with starting point in the PESTEL, a discussion is based on the findings. This way, the different factors are related to the RQ, and helps answer to what extent these factors have influenced the choice of KORRES. This section tries to answer the questions concerning “how come KORRES have entered?”, “What are their reasons for the strategy?”, “is there anything specific about the country that have led to the decision?” and “what can cause a firm to try something new in a new unknown market?”.

In view of the fact that this analysis is on a macro level analysing country factors, the focus is on how attractive the country is, why KORRES have chosen to enter and which factors that pose the biggest barrier for entry.

When entering a country, it is first of all important that the country and the market are attractive, and that there is economic development and stability. Entering a market that has an unstable growth and is economically challenged can pose risks for the company in form of currency fluctuations, high inflation rates or interest rate, and especially when being a small firm with less capital to spend, it becomes more risky. When it is difficult to predict the future growth for the country and market, it becomes risky. Brazil has had a stable growth for the last ten years due to political stability, but since 2010 the economy has slowed down. The currency has depreciated against the dollar, which puts pressure on the exchange rate, and this causes concern and difficulties in predicting the future. The GDP is low and the inflation rate is high. This signifies imbalance in the economy, as it is never good when the growth decreases but inflation increases. It also makes the products more expensive with increased inflation. Therefore it becomes difficult to predict the future growth for the country, since the last four years has been down hill for the country. Even though Goldman Sachs has predicted that Brazil will become the fifth biggest economy in 2050, the economy needs to grow and perform better for this to happen. Rousseff has taken the same turn as Lula and is focusing on improving the economy, social welfare and internationalizing Brazil even more, but the decreases in GDP shows that it has failed to some extent. The high focus on the Olympics has slowed all projects in Brazil, as the Olympics are the main focus area of the government. The change in the political structure in the beginning of 2000 and the same party being in government for more than ten years has lead to political stability and economic growth until 2010. This political stability may be a factor of why KORRES have

entered, given that political stability is very important when doing business. It gives the company a certain form of confidence in the government, as it is not likely that the policies will change over night. The corruption in the country, especially within the government, does not appear to have an influence on the decision, but is still an important factor to take into consideration before entering. It could cause problems, if there was corruption among business and if there were cases where businesses had to close, due to corruption, but this does not appear to be the fact in Brazil.

Since the country has had a growing economy up until 2010, this can be a factor of why KORRES have chosen to enter the country in the first place. If the government increases the focuses on getting the economy back on track after the Olympics, they might succeed, but it is difficult to predict. The government needs to get the interest and inflation rate down, in order to get the economy under control. The interest rate is high, which can be a problem for the overall economy, and since people have difficulties paying back the loans, it can also result in people going bankrupted and a decrease in the living standards. When the economy is decreasing, the attractiveness of the country decreases with it, thus the country will be in need of FDI to help the economy back on track. The more the interest rate and inflation rate increases, the less FDI will come into the country. This also affects the currency, as it will weaken further.

In addition, the infrastructure needs to be improved. The problem with the infrastructure can increase the costs of transportation of products, and be time consuming, as it seems difficult to get around in the country. Being ranked by the World Economic Forum as number 104 out of 142 of the world's most undeveloped infrastructures, is not a good indicator for the infrastructure and it supports the overall slowing growth. There has not been enough focus on the infrastructure, and the high interest rate might have made projects expensive and risky. Especially when the interest rate has increased steadily the last two years. It can make it expensive to borrow money to invest in projects. For a small company, it would also increase the transportation costs, and it would become difficult working in the country, as expenses would increase and make it unfavourable.

High import taxes are also one of Brazil's problems, as it makes it expensive to import into the country. Brazil has a high custom average tax of 13,56%, compared to the European 3,27%, and the import taxes for beauty and personal care products are much higher compared to the EU. The taxes increases the barrier to enter, given that products becomes much more expensive in Brazil, than what they would be in Europe, making them expensive for consumers. When being a small company, it would increase the costs significantly, which KORRES does not have the capital for. It can be a sign of protectionism, which does not comply with the international market, as it

should be fairly easy to import and export products, as it boosts the production and increases the international trade.

Being a member of BRIC gives Brazil good future predictions and good reputation regarding growth, and if the country has managed to do it once, they can do it again. Since the country has a growing middle class and has decreased poverty, the consumption could increase further and get the economy growing. It could lead to more people joining the workforce, thus increasing production. “La bolsa familia” has been a great help in raising the poor out of poverty and is still a big opportunity for further development in the country. This project has also helped create more jobs, which can be good for the domestic production.

Since the overall economical development of Brazil and “La Bolsa Familia” have led to a decrease in the poverty rate and an increase in the middle class, more people are entering the labour market and the job creation increases. This indicates that people have more money to spend and therefore the demand for goods and services increases, leading to increased domestic production. This helps the country on the international scale as it can increase the export, leading to more growth. But as the export increases, the country becomes more dependent on export. There is an imbalance between import and export. Even though the import has increased, indicating that investments have come into the country, the country is still running a trade deficit, and this could mean that investments have decreased, alongside the slowing economy. Brazil seems to be a risky country to enter, due to future uncertainties and what is more, Brazil gives the impression to be too dependent on export. This can have a negative effect if the domestic production and growth of the country slows down, as it can decrease the export, leading to a decrease in income into the country.

Since there is a huge opportunity to reach new costumers with more money to spend, this can be a factor of why KORRES have entered the market. Brazil has over 200 million inhabitants with an age structure of 30. This age structure looks to be perfect for KORRES, and can be a factor of why they have entered, as this age structure are in line with the target group of KORRES. But given that KORRES is selling exclusive products, which are expensive, it might not be the best target group, since it is a growing middle class that is leading the development, and not the upper class, which is the main target group for KORRES. With the alliance, it might be easier to reach this target group, with the direct sales model. Another barrier of the country is that people speak poor English and the culture is different from that in the west. This can be a factor of great

importance for KORRES, as it becomes difficult working in a new market, where the culture is unfamiliar and the inhabitants do not speak English. Communication becomes difficult, and since training of employees and sellers of the products are of great importance for KORRES, it would become difficult to communicate. It would also become very costly due to the distance, since Brazil and Greece are far apart. Travelling to Brazil to train the new employees may not be profitable for the company and may furthermore be time consuming. The alliance erases these barriers, making the entry into the market much easier, due to the fact that KORRES will not have to deal with them.

The fact that Brazil is a growing market for beauty and considers beauty as a status symbol may also be a reason for entering the market. People might be willing to pay money to look beautiful and to take good care of their skin. There lie big growth opportunities for KORRES, as the middle class is increasing, people have more money and are willing to spend money on beauty. Getting access to a market where beauty is a status symbol can increase sales and awareness of the company. Beauty products are listed as number ten of the most imported products into the country, which could indicate that the need for beauty increases, along with the focus on this specific industry.

Sub Conclusion

KORRES appears to have entered the market due to the good economic growth until 2010 and the political stability. It is furthermore becoming more international and is estimated to become one of the biggest economies by 2050 according to Goldman Sachs. There is a large consumer base and increasing wealth in the country, and the demands for goods has gone up. There appears to be barriers to entry within every factor of the PESTEL, with exception from the political. The main threats of the country are the economical, social cultural and legal factors.

The economic slowdown the last four years poses a risk for KORRES, not only because KORRES is small, but also as it can be costly and risky entering a country where it is difficult to predict the future. Seeing that Avon becomes the “owner” of the brand name with the alliance, KORRES does not have to be concerned about the economic situation of the country. They get the upfront amount, and can leave all of the economical concerns to Avon.

Since the culture in the country is very different from the European, it seems difficult to enter, without having any form of knowledge of the country. Entering with Avon, will give KORRES market access, with a company that already knows the culture, language and has been on the

market for many year, and will erase the barrier of distance. The cultural barriers that emerge are too big to overcome for KORRES alone, as they are a small company. Thus, if they want to enter the market, they need to do it with an alliance that has the knowledge they lack.

The high import taxes also seem too big of a barrier of the country, as taxes increase the prices of the products, and make them costly for the consumers. Entering with the alliance, where the products will be produced in Brazil, will eliminate the import taxes and barriers and make the prices more affordable for the consumers. KORRES is small and does not have a huge profit, thus overcoming the import taxes alone, would be too costly for them.

The undeveloped infrastructure also poses a risk for KORRES, as it can be costly and risky entering a country with lack of infrastructure, although this does not seem to be one of the main reasons for the alliance. When entering the alliance, KORRES does not have to take the infrastructure into consideration, as it will be up to Avon to transfer the products around.

Thus, the economy, the cultural factors and high import taxes, and to some extent the undeveloped infrastructure are the country specific factors that have led to and affected the choice of KORRES to enter with Avon.

Porter's Five Forces Analysis of the Brazilian Beauty Industry

The factors of the country that can have led to the decision of KORRES, have now been examined and analysed, and the next section, investigates the factors of the beauty industry, where the definition of the beauty industry is explained in delimitations. Initially the beauty industry in general is described, and it looks into which sectors of the industry that are experiencing the highest growth, which categories are increasing their sales, and which new categories are entering the market. Thereafter the emerging markets are described, to give an idea of how fast they are growing, and why Brazil is said to become the second largest beauty industry in the world. Porter's five forces is thereafter used to describe the industry and take a closer look at factors influencing it, and the section ends with a discussion of these factors. A SWOT consisting of facts about KORRES, PESTEL and Porter's five forces is conducted and used as a conclusion to answer the first part of the RQ.

The General Beauty Industry

The Global Beauty Market is one of the fastest growing markets in the world and according to analyst from Goldman Sachs the market has a growth rate of 7% a year, which is more than the developed world's GDP (The Economist, Pots of Promise, 2003). In the Latin American market, Brazil, growth has triplet from 2000 to 2013 according to president of CASIC, the Chamber of the Latin American Cosmetics Industry, and this is despite the recession in 2008 (Cosmetics Business, 2014). This makes the beauty market one of the strongest in our time. The beauty and personal care industry keep experiencing growth, as beauty is something women cannot live without (Morris, 2013). Beauty has existed for many years, and never seem to go out of fashion – just the opposite (The Economist, Pots of Promise, 2003). The need for beauty has expanded rapidly and the beauty and personal care industry broadly refers to products used for beauty, wellbeing and personal hygiene. It consists of skin care, hair care, toiletries, coloured cosmetic and fragrances (The Economist, Pots of Promise, 2003).

When talking about beauty, as described in delimitations, a new type of beauty products have entered the market and they are the organic and natural products. Natural products are becoming more visible on the market and their popularity has intensified during the last couple of years due to lifestyle changes, increase in income and increased awareness and demand of natural products. There is a new wave within the beauty market that focuses on sustainability, natural ingredients and health. Natural and organic products are produced as sustainable as possible, which makes them stand out from the rest of the products in the market (Ibbutson, 2010). Consumers associate natural products with sustainability, good health, the environment and with being “green”. This new trend indicates that more natural products are being sold in the market (Ibbutson, 2010). According to analyst Transparency Market Research, the global demand for organic personal care products was in 2012 €5,5 billion. This is estimated to increase to €9,7 billion in 2018, growing with an annual growth rate of 9,6% (Yeomans, 2013). The consumer awareness regarding the environment, the production process, animal testing etc. has increased, and made the consumers very demanding. They want more value for their money and organic and sustainability is considered as increased value. The increase in information has led to a big demand for natural and organic skin care products and this has boosted the skin care market and has made it one of the best investment segments to focus on as the market is experiencing remarkable growth (Yeomans, 2013). Skin care products dominated the demand in the global organic personal care market in 2011, with a 32.1% market share, followed by hair care and coloured cosmetic.

Especially Brazil is pinpointed to have a huge market opportunity for organic personal care products (Yeomans, 2013). This growth is lead by the increase and widening of distribution channels and development of new products. However, natural products face some obstacles since their shelf -life is limited due to the shorter life of natural products. Shelf life is the time a product can be on the shelf before it gets sold, and this is limited in view of the fact that organic products expire much before mass products. Thus, the products need to be sold rather fast when hitting the shelf, so the products do not go out of date and has to be thrown away. The access to raw material and strict regulatory requirements for the products also place obstacles for the organic products (Yeomans, 2013).

Geographically, the emerging markets are important for the growth in beauty and especially the BRIC countries hold a large market share in the beauty and personal care industry. In 2010 the four countries together counted for roughly 21% of the total global beauty industry value size (Ibbutson, 2010). It is estimated that in 2015 this number will increase to 25% and they will have a total value growth of 54%. This makes the BRIC countries very attractive for beauty investments, as growth opportunities are high and the countries are expanding their share in a rapid rate (Lennard, 2011). According to Euromonitor International, BRIC has (with the exception of Russia) far outgrown the 4% global growth in the beauty sector from 2008 to 2009, and this makes BRIC a key for future growth (Ibbutson, 2010).

Brazil is at the moment the third largest beauty market in the world next after USA and Japan and is estimated to take Japans place soon. Valued at €31 billion in 2012, it represents 58% of the Latin American beauty & personal care market. Currently Brazil is the second largest global market for hair care products, which together with fragrances, accounts for nearly 40% of total sales within beauty and personal care (Laporte, 2014). Apart from hair care, Brazil holds the third largest market for colour cosmetics and oral hygiene and the fourth largest for skincare. It is also the second largest market for men's grooming products, stressing that beauty is not only for woman, and people in Brazil, both men and women, care about their look (Laporte, 2014).

Cosmetics, toiletries and fragrances sales grew by 10% between 1996 and 2012, which is a significant amount compared to a 2,2% increase for the general industry the country experienced in the same period. According to ABIHPEC (the Brazilian cosmetic, toiletry and fragrance association), the growth in the beauty industry has for the last 17 years outperformed the general

industry and the country's GDP (Matthews, 2013). The general beauty market is expected to grow by 38% between 2011-2016 and reach a value of €43,4 billion in 2016 (Pitman, 2012).

Since 2005 the country has doubled the annual consumption of beauty and personal care products and in 2010 it had a consumption growth of 15%. This increase in consumption is a consequence of the increased low- and middle class and the consequently higher income. More women are entering the workforce and they are the main buyers of beauty products. This increase in growth makes Brazil the fastest growing market in the world (Ibbutsson, 2010). At the moment, skincare sees the biggest growth in Brazil with a value of €1,5 billion in 2006 and an estimated value of €3,7 billion in 2016. This increase is due to the increase in the body care market, which grew from €753 million in 2006 to an estimation of €2,2 billion in 2016 (Pitman, 2012).

Suppliers Bargaining Power

This section focuses on KORRES and its suppliers, given that the assignment focuses on their decision to enter the Brazilian market with an alliance. The section looks at the suppliers of KORRES to establish the position and bargaining power of KORRES over their suppliers, to uncover eventual problems and give an idea of their competitiveness. The section furthermore briefly consider the suppliers of Avon, to examine the difference in suppliers and how this can affect KORRES and its brand identity, which will be investigated further in section 2. Thus, suppliers bargaining power will mostly be used to analyse the RQ's second part, but since it is part of the five competitive forces, it is described and explained here.

According to Porter (1985), the suppliers bargaining power over a firm is another determinant of industry attractiveness (Mullins, 2008: 83). The bargaining power of suppliers has changed dramatically, as more companies are seeking long-term relationship with their suppliers. This cooperation can result in lower transaction costs and improved quality derived from the suppliers skills (Mullins, 2008: 83). KORRES is cooperating with the raw-material suppliers, thus cooperating with different farmers, and is gaining benefits as lower cost and higher quality. According to KORRES they are producing high-qualified products, products that have added value in form of content, producing process, company awards, environmental friendly company and good CSR, thus their suppliers must provide high quality components. By cooperating, the farmers seem to be more engaged in the work and take more responsibility. This form of relationship also seems to build up more trust between the parties involved (Morgan, 1998). Working with instead of competing against is deeply rooted in KORRES and its vision. As they

state: “The choice not to cultivate ourselves the herbs that we need is a conscious one. Our aim is not to compete but to support the farmers and their unions, as well as the community bodies” (Cooperations, 2014). This indicates that KORRES could make their own farms if they wanted to, but decide not to. The cooperation benefits everyone, but especially the farmers that get help in forms of secure income through the cooperation. This decreases the bargaining power, as they are secured by and depending on KORRES. The cooperation also decreases the cost and spending of switching suppliers and makes the future cost more secure (Morgan, 1998). KORRES have its own production plant in Athens, Greece, furthermore reducing the production cost. Thus the use of backward integration reduces their cost and suppliers bargaining power as they do not depend on many suppliers, but only the ones they are cooperating with (Mullins, 2008; 319). Also, within the production plant, they have their own water purification plant, also decreasing cost (How we produce, 2014). This also ensures the quality of the products, as it is produced on the terms of KORRES (Mullins, 2008: 319). Since KORRES have its own plants and a strong relationship with their suppliers, it becomes difficult to talk of suppliers bargaining power, as it is a common venture, but suppliers bargaining power appears to be low. It seems as a very attractive cooperation, since it is a long-term relationship and KORRES keeps increasing the earnings and expanding rapidly, thus leading to more products, which in the end is good for the farmers.

In contrast to KORRES, Avon does not have collaborations with a set of local farmers and suppliers. Avon has supplier diversity, and has suppliers all over the world. In 2010, Avon had 200 different suppliers (Avon, suppliers, 2014). Avon uses both company-owned facilities and third party manufacture to produce its products, and 85% of the beauty products are produced within company-owned facilities (Manufacturing, 2014). This decreases the bargaining power of suppliers, since the suppliers are private owned. All of the suppliers have to apply to the global Code of Conduct of Avon. “While Avon recognizes that there are different legal and cultural environments in which Suppliers operate throughout the world, this Code of Conduct sets forth the minimum expectations under which Avon and our worldwide Suppliers are required to operate”(Avon, CoC, 2011). Thus, the CoC sets up rules that suppliers have to comply to. Regarding environmental issues, the CoC states the following: “Suppliers must comply with all local environmental laws applicable to their operations. In addition, Avon encourages suppliers to have environmental policies and environmental management systems containing goals with targets that are focused on the continuous improvement of overall environmental performance” (Avon, CoC, 2011). Hence, Avon does not appear as “green” as KORRES regarding production

methods and concerns for the environment to the degree KORRES does. They do not have specific water purification plants or special extraction methods for the products. It can be difficult to keep track with all of the suppliers and make them all produce environmentally friendly, when there are more than 200 of them.

Sub Conclusion

It looks as though KORRES have a strong buyer-supplier relationship, leading to decreased supplier power. Since the raw material they use in the products is of great importance for the products, suppliers bargaining power could be high, but since there is cooperation between farmers and KORRES, it is difficult to talk of suppliers bargaining power. Furthermore the farmers are small and can therefore not threaten forward integration. The cooperation with suppliers gives KORRES a competitive advantage, as a strong relationship and access to qualified products and skilled farmers could increase the value of the product. Additionally, having good strong supplier relationships might make KORRES strong and competitive on the international market, given that they are not in the position of losing their suppliers. Avon owns most of their suppliers, but has supplier diversity and suppliers all over the world. They do not have collaborations, and their suppliers are not as integrated as in KORRES, but they still have good relationships.

Substitute Products

This section investigates how many substitute products there are on the Brazilian market, what substitute products are and how big of a threat they are to KORRES.

According to Porter (1985) substitute products are products that provide the same service and perform the same function. In the beauty and personal care industry, almost all the products are the same both for mass and premium products, and products with and without natural and organic content. The different segments in the beauty industry are complementary but through their diversity they are able to satisfy the consumers need, however slightly different in the content, the production process, packing and brand name. According to Euromonitor International it is difficult for manufacturers working in the industry to differentiate themselves, since substitute products basically gives the same feeling and benefits and there are many manufacturers on the market (Euromonitor International, Beauty and Personal care in the US, 2013). What more is that manufactures producing premium products have more difficulties in the beauty market in Brazil.

In 2013, 98,5% of the market consisted of mass products, making the market value sales of premium products account for less than 2%. This makes the substitute products and mass products big competitors to premium products (Euromonitor International, 2010, pdf: 11). The increased presence of mass products has led to a decrease in unit price. The unit price of beauty and personal care grew less than the inflation rate, making the beauty products cheaper. This also places an obstacle for premium products, as the prices of premium products will seem much higher than mass products (Euromonitor International, 2010, pdf: 11).

The high threat of substitute products, can put a restrain on profit and make it a high-intensified market for competition, as manufacturers not only compete on products and price, but also on consumers (Porter, 1985). When there are many products to choose among, switching cost for consumers is low, which is the case of Brazil (Euromonitor International, 2013, Beauty and Personal care in the US). This indicates that in times of recession, brand preferences may change to a cheaper product, but the buying behaviour stays at the same level. According to Leonard Lauder that came up with the theory called “The Lipstick Effect”, in times of crisis, the sales of cosmetic, especially lipsticks, increases due to the low price, making the industry practical immune to crises (Farah, 2013). This, he says, is because beauty products are considered as a desire, and this desire for the products, will make woman keep buying the products despite of recession, as they need them. This might indicate that in time of recession, due to the high level of substitute products, the competition in the beauty industry intensifies.

Sub Conclusion

In the Brazilian beauty industry, there is little product differentiation as manufacturers working in the industry produce the same products and all of them are substitute products. The little product differentiation makes the competition fierce and makes it easier for consumers to swift from one seller’s product to those of others, thus making the switching cost low for buyers. Premium products might suffer under a recession, and in general have difficulties surviving due to the price.

Rivalry on the market

This section focuses on the manufacturers working in the Brazilian beauty industry. It looks at how many players that exist in the market, who the main market leaders are and to what extent it affects the rivalry on the market. It discovers the different retail channels and investigate to what

extent they affect the rivalry and competition on the market. The exit barriers for KORRES and general manufacturers already established on the market are explored to give an idea of the attractiveness of the industry.

According to Euromonitor International, the Brazilian beauty and personal care industry had 1.694 registered companies and manufacturers operating in the market in 2009 (Euromonitor International, 2010, pdf). This number has increased to 2.392 manufacturers in 2014, which gives an idea of the attractiveness of the country and its beauty industry (Mathews, 2013). The ten largest companies hold 61% of the market share, and the top ten are Natura Cosméticos, Avon Inc., Unilever, Procter & Gamble Co., Colgate-Palmolive Co., Botica Comercial Farmacêutica Ltda, L'Oreal Group, J&J Inc, Hypermarchas SA and Beiersdorf AG (Euromonitor International, 2010, pdf: 11). Natura Group and Avon Inc. holds the largest market share, but beyond these two market leaders, the industry is fragmented.

There are many manufacturers in the market, which increases the rivalry, but since the top ten hold a large part of the market, it decreases the rivalry and makes room for more entrants. The competition gets fiercer as more manufacturers enter the market (Euromonitor International, 2010, pdf).

Natura Cosméticos, founded in 1969, is a pioneering manufacturer of eco-friendly personal cosmetics, fragrance and personal hygiene products, the leading company in Brazil and one of the largest cosmetic companies in the world (Natura, 2014). Natura Brasil is one of the few beauty firms to become carbon neutral and it is spearheading a number of green initiatives involving packaging, ingredients and CSR (Sahota, 2013). Natura had a market share of 15% in 2012, thus making it the biggest competitor for new entrants (Pitman, 2012). The company has 6,200 employees, sells more than 900 products, and has revenues of US\$2.31 billion (Natura, 2014). Natura uses a direct sales model and has more than 1,2 million sales representatives in Latin America. About 90% of the products are sold in Brazil, which might indicate a large consumer base (Natura, 2014). The prices of the products are affordable, ranging below the prices of KORRES. The company has lost market share the last years, which might indicate that competition is getting fiercer and more players are entering the market, just as the statistic shows (Euromonitor International, 2010, pdf).

Avon Latin America is Avon Products Inc.'s largest business unit accounting for nearly half of Avon's revenues. Avon uses a direct sales model and has more than six million representatives in over 100 countries. Avon has been on the market for more than 125 years and stands for beauty, optimism, innovation and women. It is the leading direct selling company in the world (Euromonitor, Retailing, 2012), with sales of beauty products, personal care and household, and has a market share of 9 % in Brazil (Pitman, 2012). They are the fifth largest beauty company in the world, and sells mass products for the mass market (Avon, About Avon, 2014), thus using a cost leadership strategy, see appendix 4 (Porter, 1998). Natura seems to be the biggest competitor for Avon, since they are using the same direct sales model, are selling products within the same price range and have almost the same amount of market share. The quality difference between the two players is rather small, and that goes for the general products in the beauty industry.

In terms of distribution in Brazil, there are three main channels. Direct sales, based on the home sale concept, traditional distribution, which includes wholesale, and retail stores and franchising which includes specialized and personalized stores (Mathews, 2013).

In Brazil, the main distribution channel is through direct sales (Euromonitor International, 2010, pdf: 29). A direct sales model provides a business with the ability to build and manage its own personal relationships with its consumers. Thus the consumers can perceive the relationship with the sales representative as more personal, meaningful and memorable. These relationships can help the business to better understand and adapt to the needs of their customers while fostering a sense of loyalty to the business' brand (Mullins, 2008: 124). In 2008, direct sales in Brazil had a growth of 28% and this makes it the world's biggest direct selling market (Euromonitor International, 2010, pdf: 29). Within direct selling, Natura and Avon hold the largest market share of more than 95% of the market together (McKinsey, 2014). This, according to Porter, (1985) make the market with a direct sales model very attractive, given that there are only two players, decreasing the rivalry. But, it seems difficult to enter this particular market, as they possess most of the market. The two direct sales companies are getting competition from Unilever, Procter & Gamble and Botica Comercial Farmacêutica Ltda, as the companies have invested heavily in marketing campaigns and value added products, leading to increased awareness (Euromonitor, 2013, Beauty and personal care in Brazil). Thus along with the high focus on Brazil and the growth opportunities that lie within the country, combined with and flourished by the tremendous increase in the beauty and personal care industry, manufacturers are

entering the country and increasing the competition, especially towards the two main market players, Natura and Avon (Euromonitor, 2013, Beauty and personal care in Brazil).

In view of the fact that the infrastructure is undeveloped, networks of direct sales have proven to be the most effective way to reach consumers (Euromonitor International, 2010, pdf: 29). Furthermore it is far costlier to sell through a retail store in Brazil, also leading to more direct sales (Euromonitor International, 2010, pdf: 29).

In the period from 2008-2013 the distribution channel that had the largest market share was the pharmacies. Brazil is ranked number one in the world in countries having the most pharmacies with 58,000. The barriers to this channel are low and this channel is therefore suitable for small companies (Euromonitor, 2010, pdf: 24). The sale of beauty and personal care products is expected to increase through these channels, due to the resolution of the Brazilian health surveillance industry Anvisa to move OTC products behind the counter. This will free more space for beauty and personal care products (Nichol, 2011). The direct sales model still remains the biggest selling channel, but competition from the pharmaceutical channel increases, and more products are being sold through these channels (Euromonitor International, 2010, pdf: 29).

The direct sellers will also experience competition from the chained stores, such as Sephora, that is entering the market (Nichol, 2010). These chains also focus on marketing campaigns and value-added products, and have a broad range of products. This eventually leads to increased competition and changes in the retail structure (Laporte, 2014).

The barriers to exit the Brazilian market are high for KORRES, in view of the fact that they have signed a contract, which expands up to fourteen years, with the option for Avon to purchase the remaining KORRES intellectual properties for the Latin American territory. It will be costly if KORRES wants out of the contract, since Avon has paid an upfront amount of € 8,5 million for the first twelve month (Appendix 1). This amount is higher than the EBIDTA of €7 millions in 2013.

Sub Conclusion

There is increased rivalry on the market and the competition is fierce, since there are more than 2000 firms working in the beauty industry. The biggest companies in the Brazilian beauty market, and some of the most significant are Natura and Avon that use a direct sales model. This allows them to get close to the consumers and get a good relationship. The small product differentiation increases the rivalry, making competitors compete on price, quality and consumer

loyalty. Added value is in focus and natural products are gaining market share. Since switching costs are low for consumers, this intensifies the rivalry, as the industry competes over attracting and keeping consumers.

Buyers Bargaining Power

This section focuses on the consumers bargaining power in Brazil and how this affects the manufacturers working in the market. It is an important aspect to examine the consumers demands, when selling products in a new market.

Brazil has over 201 million habitants, making the consumer base large, with a median age structure of 30 years and low concentration. According to Euromonitor, in 2020 41% of the population in Brazil will be under 25, the largest global average after the Middle East and Africa. These young consumers are prime consumers of cosmetics and other personal care items. This age group is far more likely to experiment with new products than their older counterparts. On the negative side, these young consumers are far less brand loyal than their parents, and tend to fly from brand to brand (Euromonitor International, 2010, pdf: 34). This indicates that manufacturers need to focus on the extra value that the products provide to the consumers and the CSR, in view of the fact that switching costs are low due to the increase in substitute product, as described earlier. A way companies use their CSR to differentiate themselves is through social initiatives that help the society and individuals. Avon is helping and supporting breast cancer with its Breast Cancer Crusade and has done this for 20 years and is the leading corporate supporter globally (Avon, Breast Cancer, 2014). They also help woman of domestic violence and in 2004 they launched their 'Speak Out Against Domestic Violence' programme that focuses on education, prevention and victim support programmes (Avon, Violence, 2014). These initiatives toward helping women are a strong way of positioning themselves. KORRES is using their CRS by focusing on the production process as a whole. They focus on the NO WASTE operation, protecting the ingredients, using 100% renewable energy in the production, 99% recyclable packaging, natural solvents, community collaborations and protecting natural habitats (Eco, 2014). There are many focus areas that companies can choose to focus on, and all of these can help to position the companies in the market and in the mind of the consumers.

Sub Conclusion

Consumers to some extent have high bargaining power, as the switching costs are low, as there are many substitute products and manufacturers in the industry. This indicates that manufacturers need to differentiate the products, in order to attract the consumers. The focus needs to be on the added value and benefits and this can be done with one of the two mentioned examples of CSR above. The increased awareness of organic and natural products, along with increased focus on the environment, makes it important for manufacturers to focus on these issues to attract consumers. If manufacturers succeed in producing products that give the consumers the wanted benefits, they can increase sales and appeal to more consumers. If the products are important enough for consumers, consumers bargaining power decreases. What is more is that there is a large consumer base with low concentration, many consumers to target, which decreases the bargaining power.

Threat of New Entrants

This section focuses on the barriers that might be when entering the market and how these affect the threat of new entrants. It looks into threat of strong economies of scale, legal requirements, brand position of companies and the taxes. In the PESTEL, the focus on taxes was between Brazil and EU, as Greece is a member of EU, to highlight the advantage of membership of EU. In this section the focus is on the taxes in Brazil compared to the taxes of the US. The US is chosen since the US is not a member of EU and since KORRES already is working in the US beauty industry. Thus it can give an idea of how big a barrier the taxes in Brazil are, when they are compared to another country, which have the same circumstances regarding trade.

There seems to be a high threat of new entrants, as more manufacturers are entering the market, along with the growth in the beauty industry in Brazil. Between 2006 and 2011 the industry grew by 79% to €31,7 billion, making it the fastest growing market in the world (Pitman, 2012).

The first barrier to enter is if strong economies of scale exist. Both Natura and Avon have strong economies, because they are vertically integrated and are strong players on the market. This makes it more difficult to enter as the two companies have the largest market share within direct sales and have a strong consumer base, but it also gives room for more competition (Mckinsey, 2014). The limited distribution channel can be a barrier for entry, given that it becomes difficult to enter and compete on the market with the direct sales model, when not having any experience

within the area and given that 95% of the market is hold by Avon and Natura (Euromonitor International, 2010, pdf: 29).

The legal requirements for entering the Brazilian beauty market and import goods are high. Documentation is required and in order to protect people's health, the ministry of health controls the manufacturers and the import of all cosmetic products in Brazil, with the aims to guarantee the safety and the quality of the products offered (Farah, 2013). Additionally the establishment must be registered in ANVISA (the National Health Surveillance Agency) and have a document called Autorização de Funcionamento de Empresa, an authorization for the company to operate. ANVISA divides the products into two levels, and depending on the level, the products and its efficiency needs to be tested. Besides this, the imported cosmetics need to have the same requirements as Brazilian manufactured cosmetics. For the list, see appendix 15 (Farah, 2013). Therefore it can be rather difficult to get all the right papers, which is a barrier to the market.

There are high taxes on imported beauty and personal care products, and both in Brazil and the US, import duty and taxes are due when importing goods into the countries, either by a private individual or a commercial entity. The valuation method in Brazil is CIF (Cost, Insurance and Freight), which means that the import duty and taxes are calculated on the complete shipping value of the three costs (Import Duty, Brazil, 2014). In the US, the valuation method is FOB (Free on Board), meaning that the import and taxes are calculated exclusively on the value of the imported goods (Import Duty, USA, 2014). In Brazil the average duty rate is 22,77% (Import Duty, Brazil, 2014), compared to 5,63% in the US (Import Duty, USA, 2014). Sales tax in Brazil, ICMS, is a state tax and therefore varies by state. There are three groups of state tax varying from 17-19% (Import Duty, Brazil, 2014). In the US sales tax is not automatically charged on imported goods (Import Duty, USA, 2014). Federal excise taxes range between 0%-300% in Brazil and are calculated on the CIF value of import (Import Duty, Brazil, 2014). In the US excise taxes are imposed on alcoholic beverages and tobacco (Import Duty, USA, 2014).

	Brazil	The US
Valuation Method	CIF	FOB
Duty Rates	22,77%	5,63%
Sales Taxes	17%-19%	None
Federal Excise Tax	0%-300%	Alcohol + Tobacco

Source: Homemade chart

These numbers show that taxes in Brazil can be a big barrier for entry, since they are much higher compared to for example the US and EU, as mentioned in the PESTEL. It is more expensive to import beauty products to Brazil than the US, and for a member country of EU that does not have any trade barriers, the expenses might appear much higher due to all the extra import taxes in Brazil.

Another barrier to enter can be difficulties in establishing a brand image and positioning. This is not just a barrier of Brazil, but is a general barrier and obstacle all over the world within the beauty industry. When entering a market where the brand is unknown, it becomes more difficult in establishing brand positioning and image. The image of the brand is the perception of the brand by consumers (Heding et al. 2009: 13), where brand positioning is “based on the assumption that consumers have limited mind space for commercial message and that the most successful brands hence are the ones able to positioning themselves in the minds of the consumers by adapting the most congruent and consistent commercial message” (Heding et al. 2009: 14). Thus, since KORRES is an unknown brand in Brazil, they have no brand positioning yet. Furthermore the brand image seems to be non-existent, which also makes it a barrier for entry.

Sub Conclusion

The main barrier to enter the market appears to be the high import taxes. Compared to other countries, Brazil has some of the highest taxes on beauty products, and this might make it difficult for companies to enter. Furthermore it is rather substantial to get the right documents. Natura and Avon can also be barriers to enter, as they are the leading companies in the market with the direct sales model and have economies of scale. It needs strong capital requirements to enter. If producing premium products as KORRES, the market structure is also a barrier to enter, in view of the fact that the market is mass product dominated. Brand positioning also possesses a barrier to enter, but this is not just for the Brazilian beauty industry, but a common barrier for the

beauty industry. These factors makes entry more difficult, but not impossible. More manufacturers are entering the market, indicating a high threat of new entrants. The industry is attractive, since revenues can be gained. If companies are able to overcome the barriers, it increases the threat of new entries.

Discussion on Porter's Five Forces

In the PESTEL analysis, the conclusion was that it was the social cultural and legal factors that affected KORRES. These were the main barriers to enter and therefore affected and led to the entry with Avon.

The characteristics of the beauty industry have given a more in-depth answer to why they might have entered. This discussion helps answer the questions on “How come they have entered?” “What are their reasons for this strategy?”, “Is there anything specific about the industry that have led to the decision?” and “What can cause a company to try something new in a new unknown market?”. These questions will lead to the answer of the first part of the RQ.

First of all, the general beauty industry is growing rapidly, and has done so the last few years. It is the fastest growing market in the world, and especially Brazil has one of the fastest growing markets within the beauty industry (Laporte, 2014), thus entering the market can lead to growth opportunities. Brazil alone has doubled its consumption of beauty products from 2005 to 2013. The industry seems to be unaffected by recessions, which makes it a strong market. Brazil and the Latin American countries hold more than 58% of the beauty market, which gives rise to a huge consumer base. The skin care market is growing remarkably in Brazil, which could give KORRES an advantage, since a lot of their sales is skin care products. Furthermore, organic and natural products are seeing an increase in sales, which could also be an advantage for natural KORRES. Thus, all these factors of the Brazilian beauty market, might explain why KORRES have entered the market. There is a huge opportunity of growth, as the market keeps growing in a rapid pace, and it is estimated to be the second largest beauty industry in the world. It looks very attractive, and the green wave is becoming more visible in the country, as more organic and natural products are entering the market. There is an increased focus on added value, which can be a competitive advantage for KORRES, as they are innovative, have high quality and beautiful

packaging. Companies focus on price, quality and consumer loyalty but since KORRES cannot compete on price, they need to compete on quality.

Although the general market looks appealing, the sales structure of the Brazilian beauty market is different from that of others. The primary sale is through a direct sales channel, which many companies do not use. Avon and Natura are market leaders when it comes to direct selling, and holds 95% of the market. Thus entering with one of these companies could secure a market penetration reaching a large consumer base. Moreover, less than 2% of the market consists of premium products, which could make it difficult for KORRES to compete, given that they are selling premium products. The consumers mostly consume mass products, which are cheaper, and this might be an obstacle for KORRES. Using a retailer such as Sephora does not look like the obvious option, in view of the fact that this form of retailing is not the main channel. Pharmacies are increasing the market share, and could be an option for KORRES, as they are used to this retail channel from Greece. This channel is suitable for small companies and would fit KORRES, as they are rather small. It could also be an ideal channel for luxury products. Since KORRES is unknown in the country, consumers' lack of knowledge of the products would pose a risk, seeing that the products could expand before they got sold, due to their shelf life. The import taxes of the country are high, which also pose a big barrier to enter. Furthermore, it takes considerable documentation to import products. The prices of the products will automatically increase, when taxes are imposed, and it would make the expensive products even more expensive. This is a barrier for the company, since it is a middle-income country they are entering. Brazil is an expensive country to import beauty products into, since the import taxes are much higher compared to Europe and the US, where KORRES also does business.

The retail distribution is different from that of other countries, since the main distribution channel is through direct sales and marketing, and KORRES does not have any experience when it comes to direct sales. Avon and Natura are market leaders within the direct sales model and hold most of the market share. Avon is a popular company, has a strong brand positioning, and is listed as number two, in the list of top ten most popular beauty brands. The companies working in the markets are big companies, with economies of scale and a wide products range, such as the L'Oreal brand. It seems to be rather difficult for KORRES to compete against these companies on their own, since KORRES is small compared to the rest, and has a smaller product range. The market is attractive, but since the retail channels are not the primary source for selling products, and KORRES have to take the shelf life of the products into consideration, it might not be

plausible to enter the market, with their regular expansion strategy, with store opening or distribution through retail stores. To enter with a sales model that the consumers are used to, might be a better way to reach out to the consumers. KORRES might also be able to establish brand image and positioning in the minds of the consumers, when the products are being sold through a company the consumers have trust in. Furthermore, since there is little product differentiation in the market, and consumers might shift from one product to another quickly, KORRES needs someone to convey their products directly to the consumers in order to get them intrigued.

Sub Conclusion

Brazil is set to be the world's second largest beauty market, and the interest for natural and organic products increases. Since the market is attractive, competitive, possesses growth opportunities and since the number of manufacturers increases every year, this could have had a big impact on the fact that KORRES have chosen to enter. It can be an advantage for KORRES to enter, since organic products are experiencing an increase in Brazil, especially face care, which is one of the biggest sales categories of KORRES. Since there is an increased focus on added value, it fits the products of KORRES, as they are unique and have high quality. They have added value in forms of innovation, organic content, aesthetic packaging and are environmental friendly.

The combination of the market structure, with a direct sales model, the market share of premium products being less than 2% and the high taxes on beauty products, seems to be the three factors of the beauty industry that have led and affected the choice of KORRES, to enter with a strategic alliance. KORRES would not be able to overcome these barriers alone, as they are too small.

KORRES does not have any experience regarding direct sales, and since this is the way of doing business, an alliance with a company using this form of distribution appears to be the only option, if KORRES wants the entering to be successful. Avon has most of the market share, thus entering with Avon, gives market penetration and erases the barrier of fierce competition, compared to if KORRES was to enter alone. Avon knows how to do business, the culture of the country, how to compete, and most important has a large consumer base. Entering as part of Avon's products range, might be the easiest and cheapest way to get market access and reach consumers. Since premium products counts for less than 2% of the market, it would be difficult to establish a brand positioning and reach out to the consumers, if using a retail store, since the products have not established a brand name, and it would pose a risk, due to the shelf life of the products. Even

though natural and organic products are becoming more popular, it would still be difficult, since KORRES is a small company compared to the rest of the manufacturers.

The high import taxes would also be a barrier too high to overcome alone, as it would be costly and increase the price of the products. The alliance eliminates these costs and the barrier of extensive documentation, since products produced in Brazil do not demand as much documentation.

Entering and competing in a new country, with a different distribution channel, buying culture, intense competition and high import taxes, seem as high entry barriers for a relative small company. Since KORRES wants to enter the market, the entry strategy with Avon appears to be the only way at the moment, since it will erase these entry barriers.

SWOT Analysis – Conclusion on the first part of the RQ

This section is based on a SWOT model, conducted from the findings in the characteristics of KORRES, the country and industry. It highlights the internal factors of KORRES, and the external factors of the country and beauty industry, and this way answers the first part of the RQ; which factors that have led to and affected the choice of KORRES to enter the Brazilian market with an alliance with Avon.

From the SWOT (please see the chart below), the main reason for KORRES to enter Brazil in the first place is a combination of the strength of the company and the opportunities in the country and industry. The opportunities give a clear reason as to why the country and industry is attractive, and why KORRES should enter. The weakness in the company and the threats in the country and industry, can explain why KORRES have not entered before and why they enter with this alliance, since one factor affects the other. Thus, the insecurity of an unfamiliar country and culture, long distance and different language, is enhanced by the lack of knowledge from KORRES. This makes it one of the main reasons for choosing the alliance. Other reasons are the high taxes in the country and industry, and the distribution structure, which are enhanced by the size of KORRES. These three factors are the most important and what have led to the alliance. When entering the alliance, the barriers that the threats of the country and industry pose on

KORRES, are eliminated. There are many other factors that have affected the choice, such as Avon holding a large market share, Brazil being a mass product market, KORRES being a small company, the upfront amount of money, which is bigger than the annual revenues in 2013, and an unpredictable future growth for Brazil. All the factors are the threats in the SWOT and have to some extent had an influence on the decision. Some of these factors are partly confirmed by the interview, but also since Sakarellou (Interview 1) states that Avon came to them and asked for the cooperation and alliance. This supports the findings and suspicion that KORRES is too small to enter alone, even though the market in some areas appears to be attractive.



Source: Homemade SWOT based on the findings

These are the country and industry factors that have led to, and affected the choice of KORRES to enter the market with the alliance. KORRES can use the findings for other markets, since the findings can give an idea of which internal and external factors to be aware of when entering a new country and market, and how these factors can influence the company and their strategy.

This leads to the next question, of how this new strategy can affect the brand. The next section will discuss the possible influences it can have on the brand identity, changing the sales channel.

Section 4

Alliance & Brand Identity

This section examines how the alliance can influence the brand identity of KORRES. The interview with Isabella Sakarellou (appendix 15) is used throughout the section as references and statements, and as triangulations to the findings in the first section. Thus, it is used to confirm some of the findings in section 2 and 3, and support the conducted analysis. Together with Porter's generic strategy, facts of the alliance, information on direct sales and interpretation on Kapferer's identity model, this section answers the RQ's second part.

Initially, the generic strategy that KORRES is using at the moment is analysed, together with a discussion of the alliance and the direct sales model. Then the theory on brand identity by Kapferer is discussed and analysed, and is based on the findings and factors so far. Finally, the strategy used by KORRES/Avon after having joined the alliance is discussed, to detect if there is any changes, and if so, how this can affect the brand identity.

The Strategy of KORRES in the European Market

If KORRES is placed in Porter's generic strategy framework, the company is placed as using a differentiation strategy. They sell unique products with high quality and aim at targeting a broad scope of consumers with a price people can afford. They are trying to stand out compared to competitors in forms of production method, the packaging, their knowledge and scientific products. Special ingredients are also the competitive advantage of KORRES, together with the strong supplier relations, as the cooperation secures the high quality and decreases the costs. Companies that succeed in implementing a differentiation strategy normally have a combination of attributes such as leading scientific research, highly skilled and creative product-development personnel, a strong sales force and a strong reputation for quality and innovation (Saint-Leger, 2014). KORRES can be said to have leading scientific research within their field of expertise as innovation is very important for the company and they are focusing especially on this area, with continuously cooperating with innovation teams across countries and the university of Athens (cooperations, 2014). They also have highly skilled personnel and according to Georg Korres, a

very strong team, which he states is one of the reasons for their big success (Our Heart, 2014). Additionally, quality and innovation is one of the company's key issues and KORRES is continuously innovating the products and extraction methods, making the focus on R&D very high (Development, 2014). All of the above attributes are some of the main ground pillars for the company. The products have been highly rated when tests have been done and both the company and products have won awards both for "company of the year" and "products of the year" (Product awards, 2014), which can help differentiate the products. KORRES emphasizes the value added to the products, and they make sure that there is synergy among the partners, stores and marketing materials. This is a key factor when using a differentiation strategy, in order to maintain the high quality and value of the products in the eyes of the consumers (Porter, 1998). The differentiation strategy can be supported by the fact that KORRES as a company thinks of itself as a chameleon, as described earlier.

The Alliance with a Direct Sales Model

The Type of Alliance

In international business, it is very common to use strategic alliances in different forms and shapes when entering a new market. An alliance is partly established to eliminate barriers when doing international business, since it can be very costly to expand a business abroad, but also to become more competitive and get competitive advantage, by sharing resources, technology, capital or markets. A strategic alliance is often used since it is the only feasible way to expand the business (de Man, 2013). In the case of KORRES, the alliance seems as the only option to enter the Brazilian market, as explained in the SWOT analysis. A strategic alliance is: "characterized by joint goals, involves some form of sharing of revenues, cost and risk between partners, provides for joint decision making and is based on open-ended or incomplete agreements" (de Man, 2013). In the case of Avon and KORRES, the strategic alliance they have agreed upon, gives Avon the right to produce and sell the products of KORRES in Brazil and L.A. (Interview 1, appendix 15). The agreement contains different aspects, but it is a patent/trade-mark agreement, since Avon gets to use the name of KORRES exclusively and have the ability to extend the contract up to fourteen years, and the production will move to Brazil (Interview 1, appendix 15). There is a mutual benefaction for the two companies. KORRES gets market penetration and access to L.A. through Avon that has market familiarity, a large consumer base and is a market leader. And since KORRES would not have been able to enter on their own, it is

the ideal solution for them (Interview 1, appendix 15). According to de Man (2013) an alliance also helps diminish the competition when joining forces, thus it helps KORRES face the competition in the country, which is fierce in the beauty industry. KORRES can enter the market, without dealing with the formalities, and it erases the cultural barriers such as the language, norms and ways of doing business and the distance (Interview 1, appendix 15). KORRES leaves everything in the hands of Avon, so they do not have to use as many resources, as they would have if they were to open up stores or dealing with a distributor. Besides these benefications, KORRES gets €8,5 millions for the first twelve month of the agreement (Press Release, 2014). In return, Avon gets to use the name of KORRES in Brazil and L.A and sell KORRES, as it if was their own. Even the packaging will be re-designed, so it fits the country and consumers' demand (Interview 1, appendix 15). According to Sakarellou (Interview 1), KORRES have some say in the final decision regarding the packaging, since they have to approve the design. This alliance can be a huge asset for Avon, as they increase the product range with organic and natural products, which is the market trend and consumers' desire. Avon furthermore gets the know-how, expertise and formulas from KORRES, which increases the benefits of the agreement, and can make them stronger in the Brazilian and the L.A. market (Interview 1, appendix 15). When the products hit the market, KORRES will have no influence, since the products will be sold, marketed and branded under Avon, together with the products of Avon. For an alliance to be successful, an alignment of strategy or objective is necessary (de Man, 2013), but KORRES does not have any, except a focus on increasing the sales volume (Interview 1, appendix 15). This causes concern, as it appears as though KORRES is giving up too much of their influence in order to boost the sales.

Direct Sales Model

In contrast to retail distributors or stores, direct sales are a face-to-face presentation, demonstration, and sale of a product or service, usually in the home of the buyers. The marketing is direct and there is no advertising, distribution or retail outlet (Mullins et al 2008: 306-307). The pros of this way of doing business, is that the sales force has a closer relationship with the consumers and therefore has a better chance of affecting their buying choice. They can build trust with them, and explain about the products, hence minimizing the risk for consumers when buying the products (Mullins et al 2008). This can be related to Aloe Vera in Denmark, which uses the

same sales approach, using direct marketing (Aloevera, 2014). But this way of doing business can also be very inconvenient or interfering for the costumers, when sellers call or show up, leading to annoyed costumers that will not buy. Therefore one of the main cons of this model is the time spent on selling, as it can be time consuming, and not always lead to sale (Suttle, 2014). With a direct sales model, a sales representative knows about the trends in the industry and knows what the consumers' desires are. Thus, the representatives might be able to read the market trends and consumer signals, and act on them, influencing the consumers to buy the products. It can be very time consuming to analyse and read the market, and it can be time consuming to train the representatives and get them to understand the products (Suttle, 2014). According to Sakarellou (Interview 1), KORRES does not have enough market knowledge to enter and sell the products by themselves, and that is why they have chosen the specific alliance. She says that Avon's sales people know the consumers and customs of the country much better than KORRES, and know how to sell products to its consumers. She also says that with this sales model, the products will be presented in a way that fits the market and the new target group, reducing the risk of misfit (Interview 1, appendix 15).

New Target Group

Since Avon is targeting middle-class women, with mass-market products, the target group of the products of KORRES will change to this group. KORRES wants to focus on volume and to sell as much as possible (Interview 1, appendix 15). This new middle-class targeting group is one of the reasons why KORRES have entered the alliance, to boost the sales and reach new consumers. The target group is also the reason why the production will move to Brazil, as the product prices would go up due to high import taxes, if KORRES were to ship the products to Brazil and L.A.. It would also make the products radically more expensive than the products of Avon, and make the price gap too big (Interview 1, appendix 15). KORRES will continue to focus on the added value, which is the beautiful packaging, innovation & science and natural ingredients. KORRES argues that these factors will not change, but will continue to stay the same (Interview 1, appendix 15).

Discussion of KORRES in the Identity Prism

Looking at KORRES through the identity prism, the discussion is divided into four parts, the same way they are divided by Kapferer. First, the picture of sender is discussed. Second the picture of recipients. Third, the internal factors, which will only include the culture, since the personality and self-concept, have been explained through the picture of sender and recipients. Last, the external factors, which will only include the relationship, since physique and reflections also have been explained through the picture of sender and recipients.

Picture of sender

Physical aspect

Starting with the picture of the sender, the physical aspect in the prism will change, since the product will change. When the packaging is changed, it might change the way people perceive the products, since the look will be different and might symbolize and give the product another outward image. Since the packaging is not final yet, it is difficult to analyse how different the packaging will be, but it will be different from that of Europe. Even though Kapferer (2008) states that adaption to new markets is necessary for a brand to survive and grow, premium products should not adapt too much, as they lose their value. Since KORRES produce premium products and uses a differentiation strategy in the European market, they should not change too much, especially not regarding packaging. Then they will move away from their original strategy and competitive advantage. They should be regarded as global and be recognizable all over the world. So when the packaging is changed, it can have a negative effect on the perception of the brand, as it can be perceived as less valuable.

What is more is that the production will take place in Brazil under supervision of Avon, and the extraction method of ingredients will not be the same, and some of the special herbs will not be included in the products. This can give a new expression to the products in form of decreased value, since KORRES emphasises the Greek flora and its importance to the products. When they take the ingredients out of the products, they are no longer the same. Furthermore, even though it can strengthen the company and its success, when producing the products locally and within the country they are being sold, as Kapferer states (2008), it can also be a disadvantage for the brand identity. KORRES have a good relationship with its suppliers and has own plants that reduces the cost and ensures that the production procedure is being carried out the way KORRES wants it to.

But when entering the alliance, all of the products will be produced in Brazil, with a company that does not have the same rules and relationship with their suppliers or have plants focusing on decreasing water pollution. Avon do not produce products as environmental friendly as KORRES, as described under “suppliers bargaining power” in P5F, and this can affects the products, since they might not live up to the standard of KORRES. Changing the content and production method of the products, which is the core of the products, can change them completely, affecting and change the brand identity. The competitive advantage the suppliers originally gave KORRES, is lost due to the change in suppliers, and the risk of increased bargaining power of supplier may appear, since Avon might use their TPS for obtaining extraordinary ingredients.

Personality

The personality of the products can also change, since the culture (part of the internal factors) and the way the products are communicated changes. They are communicated through representatives, and the representatives might speak differently of the products (although they are receiving training in the products), compared to other distribution channels, such as stores. Thus, the personality and character is affected by “*The way in which it speaks of its products or services shows what kind of person it would be*” (Kapferer, 2008: 183). If the representatives do not manage to communicate the right message and personality of the product, it will affect the identity. One could imagine that the representatives are biased toward Avon and that the culture of Avon is incorporated in their actions, thus relating to Avon and its products, and communicate the personality of Avon in general, instead of what KORRES stands for. According to Isabella, there is no agreement on how much time each brand gets when the representative is at the costumers house. Thus, some sellers might spend twenty minutes talking of the brand KORRES and others might spend ten or sixty minutes. This imposes great risk, as it is up to the seller to communicate the brand, its personality, and general assets. This can indicate that the personality of the brand, and what type of person the consumers perceives it as, can vary and give different associations, since the time spend on the brand varies.

Being a part of Avon and its product range, might also affect the personality of the products, as it now is a part of Avon, and can be associated and identified with Avon and what the company stands for, seen from a consumer perspective, thus what Avon does, can affect KORRES, both negatively and positively. It seems as the success of KORRES, lies in the hands of Avon, and this

is supported by the argumentation of Kapferer (2008) that the success of a brand extension, depends on the ability to deliver value to the client. Hence, the representatives, needs to be able to successfully communicate what the brand stands for, its quality and the value added assets, and this sets standards for the training of the representatives. The training needs to be focused and intense to secure full understanding of the products and the brand KORRES, but since KORRES trains Avon and Avon trains its representatives, some information and general understanding might get lost during the translation and training, since the representatives do not get direct training from KORRES. This can lead to misunderstandings and wrong communication.

Since it is important to get consumer insight, if an extension is to succeed, it can have a positive effect and outcome, using a direct sales model, as this form of distribution channel has a close relationship with the consumers, and might have the needed insight of the market and target group, to reach out to them.

As a result of the alliance, both the physique and personality aspects in the model are changed, indicating that the picture of the sender changes as well.

Picture of Recipients

Reflection & Self-concept

The picture of recipients, which is the reflection and self-concept of consumers, appears to change, since first of all, the target group is changed. Since the target group has changed toward middle-income women, in a different country from that of Europe, and with a different culture, their self-concept might be different, and they might use products to reflect their self-concept in another way from that of Europe. The culture of beauty in Brazil is different from that of Europe, as stated earlier, thus the women might look different upon natural products and have another relationship to them. Since the reflection is how the consumers wish to be seen, this factor depends on the consumers and what they want. This aspect of the prism is difficult to explore, since it concerns the inner ideas, reflection and self-concept of the consumers. But everyone perceives products differently, and this will also be the case of KORRES in Brazil, as it among other things is based on how the products are being communicated, and the communication form is changed toward direct sales.

Internalization

Culture

The culture is part of the internal factors in the identity prism, and is the set of values feeding the brands inspiration. In the case of KORRES, the values are based on the three factors that give value to the products, the packaging, innovation and science and natural ingredients. Even though Sakarellou (Interview 1) states that these will not change, the values will to some extent change with the alliance, since both packaging and content will differ, as explained in picture of sender. The corporate identity of Avon, will affect the values and culture of the brand identity of KORRES, since the brand identity of Avon and its values, will spill over to KORRES, as they become part of Avon. KORRES in Brazil, will adapt some basic principles of Avon, regarding the way of doing business, with a direct sales model; the outward signs, such as the products, packaging and communication; and the production of products, as described in the picture of sender. These factors will all together affect the culture and in the end the brand identity, together with the underlying values of Avon. Since Kapferer (2008) states that the corporate identity is based on integrated values and ethics of the founder, which affect the core values of the firm, and leads to the culture, KORRES will be affected by joining a new corporate culture. If KORRES entered Brazil alone, the corporate culture would stay the same, but it is impossible with the alliance, since they are part of something bigger.

Hence, the two factors, culture and personality, of the internal factors, seems to be changed in the identity prism. The brand gets a new personality and culture, as it becomes part of Avon. To what degree these two factors are changed, depends on the culture of Avon and how the representatives communicate the brand. But since KORRES becomes part of- and adapt to the new culture of Avon, it will change the brands identity.

Externalization

Relationship

The way Kapferer (2008) define the relationship facet in his prism "Service is by definition..." the service appears to change. The way the brand acts, delivers the service and relates to the customers changes, due to the nature of the distribution channel. Representatives come to the house of the consumers, instead of consumers going to a retail store to buy the products. Thus acting differently and delivers to the door service. They also spend more time on explaining about the products, which is a service in it self. It might for some be a better service, since they

do not have to leave the house, and instead is being presented with the different products in their homes. Others might fancy buying products in stores, especially luxury products. Relation to the costumers is important, and it seem as there is more focus on the factor “relationship” in the direct sales model, as a good relationship is highly important to sell products. The way the sales representatives can affect the consumer is strong compared to other distribution channels, since they are in direct contacts with the consumers, and are entering their personal sphere. Since Kapferer (2008) states that consumer insight is necessary for brand development, and Avon has years of experience within the market and consumer culture and norms, it can be an advantage to use this form of sales structure as they have knowledge of the market and consumers. They might be able to communicate what the consumers want, thereby leading to a good relationship and more sales.

When the relationship with the consumers changes, the brand identity changes. Hence, the external factors, both the physique of the products and the relationship to the costumers, change and affect the brand identity. The reflection is difficult to measure, as it is personal feelings of consumers.

Sub Conclusion

Both the internal and external factors, and the picture of sender and receiver will change with the alliance. The change that stand out the most, is the new corporate culture KORRES will be part of, and this affects the values of KORRES, as they become part of a new set of values. What is more is that both the packaging and content will vary from that of Europe, which can change the perception of the products, and the communication and marketing will be changed as well. The relationship with costumers will be different due to the direct sales model and might improve, but KORRES can loose the competitive advantage in form of suppliers, as these are changed. The products will be branded next to other products of Avon, and might therefore be compared to these products in form of content, quality, price and added values, but if branded correctly, they may stand out compared to the rest of the product range. It is important that the right generic strategy is used, so the products will not loose their value and image, and the brand identity will not change too much. The alliance can be dangerous for the brand identity of KORRES, since it will change it to a certain degree, and adapt to the values of Avon. To what extent the brand will change also depends on how the products content and packaging will vary from the original, how the products will be produced and how well the sales representatives will communicate and sell

the high quality and values of the products, which indicates that training is highly important. Since Avon has not started selling the products yet, it is still to be seen how KORRES will be affected by the alliance, but the culture, content and packaging will be changed.

A New Strategy in Brazil – Conclusion on the second part of the RQ

It does not seem that KORRES have control over, and knows which generic strategy that will be used in Brazil, and this can have a negative effect on the brand identity, and makes it difficult to place them in the generic strategy and positioning the brand. Since more than one factor in the prism will change, together with the positioning, it will affect the brand identity. There appears to be mixed signals regarding the strategy, since KORRES wants to focus on high quality and volume at the same time, and this does not fit into the generic strategy of competitive advantage. Although, this is what the strategy has been criticized for, saying that differentiation can be used as a tool to sell more products and boost the sales volume, a clear alignment and strategy is still necessary in order to succeed. There appears to be a clash between the original strategy of KORRES, using a differentiation and Avon with the cost leadership. When being sold together with products that use a cost leadership strategy, it can become dangerous for the brand, as they might be branded and positioned in contrary to their original strategy.

When focusing on volume, it indicates that they should focus on price to increase sale, which they do not. Thus focus on high quality and value need to be the core of the strategy. The question that arises is, whether it is the right target group KORRES is targeting, if they perceive the products as a necessity and want to pay the price, and if the sellers can manage the task to overcome this possible barrier. There is a shift in the brand positioning, since KORRES will move from an upper class target group, to an “ordinary” middle-income target group, and since KORRES perceive the products as luxury products, but wants to adapt to the market as mass products, it can affect the brand identity, as it might loose value in the eyes of existing consumers and be difficult to recognize by future consumers.

What is more is that since the market is moving toward added value and the focus on organic and environmental friendly products increases, it can be dangerous to change the content and eliminate the special herbs from Greece, given that they are part of the added value.

CSR is also an important factor when selling products, and it is therefore essential that there will

be focus on this issue, and synergy between the marketing of KORRES and Avon. It appears, as KORRES should keep the focus on the added value and high quality products, since this is the future, hence use a differentiation strategy. The question is, if this is possible, since they become part of Avon. When all comes to all, it is Avon that has the biggest influence on the brand identity and affects how many products will be sold on the market, due to the sales strategy and how these products will be branded and positioned.

Section 5

Conclusion

The country and industry specific factors that have led to the decision of KORRES to enter the Brazilian market with Avon, seem to be the high import taxes, unpredictable future economic growth, difference in culture and distance, the direct sales model being the primary distribution channel in the Brazilian beauty industry, and luxury products accounting for less than 2% of the market. Factors furthermore affecting this decision have been internal factors such as lack of general knowledge of the country and culture, lack of capital resources, the amount of money by entering the alliance, which is worth more than the annual revenues in 2013 and KORRES being a small company. Comprised, these factors make it difficult for KORRES to enter the market with the regular expansion strategy, since costs would be too high. Isabella Sakarellou (Interview 1) emphasizes especially the cost and lack of knowledge in the interview, as being some of the main internal reasons for the alliance.

KORRES becomes part of Avon, and since the whole culture will change and be adapted to the culture of Avon, KORRES have to make sure not to change the products too much, since this can have severe consequences for the brand identity, in form of decreased value and perception. Moreover, since the content is one of the core values of the brand, the brand identity can suffer from a change, making it difficult to recognize the original brand and its identity in form of herbs and ingredients from Greece.

Hence, the generic strategy used in Brazil needs to be coherent with the products, and their new identity. It is therefore important that an alignment and strategy are put in place before starting to sell the products. It appears that KORRES have started this project, without considering the consequences for the brand and its identity on the Brazilian market. Therefore, the advice to KORRES is to make a more in-depth analysis of the new target group, and investigate if it is coherent with the products and what they stand for, and consider if sales volume is worth changing the brand identity for.

Section 6

Perspective

There are many factors influencing KORRES, the decision and brand identity. Due to limitation of numbers, it has not been possible investigating all of the factors in details. This could have been interesting to do, as it would give a more specific insight into the different factors, and a more detailed analysis of KORRES and the entry into the Brazilian market. It would have been interesting to look further into Avon in Brazil, to reflect on how they are doing, developing and growing. It could give insight into the future growth and development of KORRES in Avon, and predict future expectations. It could also help determine how the alliance would proceed, and if KORRES made the right choice in choosing Avon. Especially since indications show that Avon has struggled the last couple of years, and has had a rough time in Brazil. Looking deeper into the distribution channels and their development, could furthermore give an idea of future expectations of these. Since the main channel, with direct sales, seems to be running out of room to grow, and competition has increased from other channels and manufacturers entering the market, it would be intriguing to look into future estimations and predictions of these. And especially to explore if KORRES should have chosen differently and entered with a familiar expansion strategy, such as the pharmacies.

Bibliography

Interview 1:

- Sakarellou, Isabella (2014). See appendix 15.

Books:

- Begg, David. Fischer, Stanley. Dornbusch, Rudiger. Economics 8th edition (2006). McGraw_Hill Companies
- De Man, Ard-Pieter, 2013. Alliance: An exclusive guide to designing successful strategic partnership. Wiley.
- Fine, Lawrence G. (2009). The SWOT analysis. Kick IT, LLC
- Johnson, Gerry. Scholes, Kevin Richard Whittington (2008). Exploring Corporate Strategy. Prentice Hall 8th edition
- Saunders, Mark. Lewiw, Philip & Thornhill, Adrian 2007. Research Methods for Business Students, fourth edition. Prentice Hall
- Mullins, Walker & Boyd (2007) Marketing Management: A strategic decision-making approach: sixth edition, 2008. McGraw-Hill International edition
- Porter, Michael E. (1998). Competitive advantage: Creating and sustaining superior performance. Free Press
- Heding, Tilde. Knudtzen, Charlotte F. & Bjerre, Mogens (2009). Brand Management, Research, Theory and Practice. Routledge

WEB:

- ABCNews April 25th (2012). Nip/Tuck Nations: 7 Countries With Most Cosmetic Surgery. <http://abcnews.go.com/Health/niptuck-nations-countries-cosmetic-surgery/story?id=16205231>
- Aloe vera (2014). Entered at: <http://aloeveradanmark.com/shop/cms-3.html>

- Annual Report (2013). Investor Relation, KORRES- Entered at:
<http://ir.korres.com/korres/app/en/financialfigures.financialrelease/title/true/category/2/quarters/true/year/1/titleDescr/financialfigures.financialrelease>
- Annual Report (2012). Invetor Relation, KORRES. Entered at:
<http://ir.korres.com/korres/app/en/financialfigures.financialrelease/title/true/category/2/quarters/true/year/1/titleDescr/financialfigures.financialrelease>
- Annual Report (2011). Investor Relations, KORRES. Entered at:
<http://ir.korres.com/korres/app/en/financialfigures.financialrelease/title/true/category/2/quarters/true/year/1/titleDescr/financialfigures.financialrelease>
- Apexbrasil (2013): Why invest in Brazil. Entered at:
<http://www2.apexbrasil.com.br/en/invest-in-brazil/why-invest-in-brazil>
- Around the globe (2014). Korres. Entered at:
http://www.korres.com/default.aspx?page_id=207
- Avon, About Avon (2014). Entered at:
<http://www.avoncompany.com/aboutavon/index.html>
- Avon, Breast Cancer (2014). Entered at:
<http://avoncompany.com/corporatecitizenship/breastcancer.html>
- Avon, CoC (2011). Entered at:
http://www.avoncompany.com/documents/corporateresponsibility/supplychain/Supplier_Code_of_Conduct.pdf
- Avon, Suppliers (2014). Entered at:
<http://www.avoncompany.com/corporatecitizenship/corporateresponsibility/corporateresponsibilitypractices/diversityinclusion/supplier-diversity.html>
- Avon, Violence (2014). Entered at:
<http://avoncompany.com/corporatecitizenship/violenceagainstwomen.html>
- BBC News January 28th (2010). Profile: Luiz Inacio Lula da Silva. Entered at:
<http://news.bbc.co.uk/2/hi/americas/5346744.stm>

- Biller, David October 08th (2013). Bloomberg Businessweek 2013: IMF Cuts Latin America GDP Forecast as Brazil and Mexico Falter. Entered at: <http://www.businessweek.com/news/2013-10-08/imf-cuts-latin-america-gdp-forecast-as-brazil-and-mexico-falter>
- Bloomberg April 30th (2010). Tummy Tucks, Implants Slice Brazilians' Taxes as Hard-of-Hearing Miss Out. Entered at <http://www.bloomberg.com/news/2010-04-30/boob-jobs-tummy-tucks-slice-brazilians-taxes-as-hard-of-hearing-miss-out.html>
- BoT (2014). <http://www.tradingeconomics.com/brazil/balance-of-trade>
- BoP (2014). <http://www.tradingeconomics.com/brazil/current-account-balance-bop-us-dollar-wb-data.html>
- Brazil Central Government (2014). Brazil Central Government Exceeds 2013 Fiscal Surplus Target. Entered at: <http://www.bloomberg.com/news/2014-01-03/brazil-central-government-exceeds-2013-fiscal-surplus-target.html>
- Brazil Culture (2014). Entered at: http://www.brazil.org.za/brazil-culture.html#.U0_aUhx3Zwc
- Brazil Employed persons (2014). Entered at: Entered at: <http://www.tradingeconomics.com/brazil/employed-persons>
- Brazil Exports (2014). Entered at: <http://www.tradingeconomics.com/brazil/exports>
- GDP growth rate (2014). Entered at: <http://www.tradingeconomics.com/brazil/gdp-growth>
- Imports (2014). Entered at: <http://www.tradingeconomics.com/brazil/imports>
- Inflation rate (2014). Entered at: <http://www.tradingeconomics.com/brazil/inflation-cpi>
- Brazil interest Rate (2014). Entered at: <http://www.tradingeconomics.com/brazil/interest-rate>
- Real, 2014. Entered at: <http://www.tradingeconomics.com/brazil/currency>

- Brazil Tax Denmark (2014). Entered at:
<http://www.tradingeconomics.com/denmark/tariff-rate-applied-weighted-mean-manufactured-products-percent-wb-data.html>
- Brazil Unemployment Rate (2014). Entered at:
<http://www.tradingeconomics.com/brazil/unemployment-rate>
- Brazil Vatlive (2014). Entered at: <http://www.vatlive.com/global-vat-gst/brazil/brazil-vat-icms-ipi/>
- Brazil Vista (2013): Brazils new republic: 1985 – present. Entered at:
<http://brasilvista.wordpress.com/2011/10/03/brazil's-new-republic-1985-present/>
- Brazil, Environment (2014). entered at: <http://www.brazil.org.za/environmental-issues.html#.UwTAWBwqRwc>
- Brazil, Politics (2014). Entered at: <http://www.brazil.org.za/politics-intro.html#.UzVVSxwqRwc>
- Brazilian Business (2008). Political parties in Brazil. Entered at:
<http://thebrazilbusiness.com/article/political-parties-in-brazil>
- Brazilian Real (2014). Entered at: <http://www.tradingeconomics.com/brazil/currency>
- Business awards, (2014). Korres. Entered at:
http://www.korres.com/default.aspx?page_id=230
- Business Green (2014). Brazil's economists predict 'huge' growth of carbon markets.
Entered at: <http://www.businessgreen.com/bg/news/2174000/brazils-economists-huge-growth-carbon-markets>
- Campden (2012). Top 100 family businesses in Europe. Entered at:
<http://www.campdenfb.com/article/top-100-family-businesses-europe-1>
- C.R. October 11th (2013). The Economist: Fiscal sustainability: Breaking BRICs piggy banks. Entered at: <http://www.economist.com/blogs/freeexchange/2013/10/fiscal-sustainability?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a>

- CIA. Central intelligence Agency: (2013). Brazil facts. Entered at:
<https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>
- Conde, Maria Lopez, June 11th (2013). The Rio Times: Brazil Infrastructure Spending Slows. Entered at: <http://riotimesonline.com/brazil-news/rio-business/brazil-infrastructure-spending-slows/>
- Cooperations, (2014). Korres. Entered at:
http://www.korres.com/default.aspx?page_id=239
- CosmeticDesign-Europe, About us (2014) Entered at <http://www.cosmeticsdesign-europe.com/Info/About-us>
- Cosmetics Business (2014). Latin America – Primed for growth. Entered at:
http://www.cosmeticsbusiness.com/technical/article_page/Latin_America__primed_for_growth/63154
- Development, 2014. Korres. Entered at:
http://www.korres.com/default.aspx?page_id=208
- Distance (2014). Distance from Greece to Brazil. Entered at:
<http://www.distancefromto.net/distance-from/Greece/to/Brazil>
- Distributors, (2014). Korres. Entered at: <http://www.korres.com/Distributor.aspx>
- Djoefbladet (2014). Brasilien efter VM. Entered at:
<http://www.djoefbladet.dk/blad/2014/10/brasilien-efter-vm.aspx>
- Dutycaculator.com (2014). <http://www.dutycaculator.com/hs-code-duty-rate-import-restrictions/330499/cosmetics/3304.99.5000/3304.99.0000/537/>
- Eco, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=243
- Euromonitor Aug. (2013). Beauty and personal care in Brazil.
<http://www.euromonitor.com/beauty-and-personal-care-in-brazil/report>
- Euromonitor International July (2013). Beauty and personal care in the us.
<http://www.euromonitor.com/beauty-and-personal-care-in-the-us/report>

- Euromonitor International, Pdf. (2010) Brazil: Key player in global beauty and personal care growth. February 2010. http://nme2010-2.wikispaces.com/file/view/Brazil_Key_Player_in_Beauty_and_Personal_Care.pdf
- Euromonitor Jan. (2012) Retailing. <http://www.euromonitor.com/avon-products-inc-in-retailing/report>
- European Commission (2013). Countries and regions - Brazil. Entered at: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/>
- European Union (2014). Trade. Entered at: http://europa.eu/pol/comm/index_en.htm
- Exportleaders (2012). KORRES. Entered at: <http://exportleaders.gr/en/index.php?about=3&id=25>
- Extraction, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=240
- Face, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=153
- Farah, Ana Gabriela Verotti, February 24th (2013). How to Import and Sell Cosmetics in Brazil. Entered at: <http://thebrazilbusiness.com/article/how-to-import-and-sell-cosmetics-in-brazil>
- Figures and information's (2013). 9-month 2013. Korres. Entered at: <http://ir.korres.com/korres/app/en/financialfigures.financialrelease/title/true/category/2/quarters/true/year/1/titleDescr/financialfigures.financialrelease>
- Forbes (2014). Top 10 Beauty Brands. Entered at: <http://www.forbes.com/pictures/lmj45jdlf/no-2-avon/>
- Global Issues (2013). Brazil in Reverse. Entered at: <http://www.globalissues.org/news/2013/10/11/17621>
- Global Locations, (2014). Korres. Entered at: <http://ir.korres.com/korres/app/en/article.globallocations>

- Global Sherpa (2013): BRIC Countries – Background, Latest News, Statistics and Original Articles (Last entered 23/11/13) <http://www.globalsherpa.org/bric-countries-brics>
- Greek Flora, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=233
- H.J & N.S. February 28th (2013), The Economist: Social spending in Brazil - The end of poverty? Entered at: <http://www.economist.com/blogs/americasview/2013/02/social-spending-brazil>
- H.J. November 15th (2013). The Economist: Political corruption in Brazil – Fruits of a long process. Entered at: <http://www.economist.com/blogs/americasview/2013/11/political-corruption-brazil>
- H.J. October 18th (2013). The economist: Public finances in Brazil – Going for broke. Entered at: <http://www.economist.com/blogs/americasview/2013/10/public-finances-brazil?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a>
- H.J. September 30th (2013). The Economist: The economist explains – Why is Brazil so expensive? Entered at: [http://www.economist.com/blogs/economist-explains-15?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a](http://www.economist.com/blogs/economist-explains/2013/09/economist-explains-15?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a)
- How we started (2014). KORRES. Entered at: http://www.korres.com/default.aspx?page_id=213
- Ibbutson, Anna October 07th (2010). Green trend drives personal care industry market. Entered at: <http://www.in-cosmetics.com/en/in-cosmetics-blog/Green-trend-drives-personal-care-ingredients-market/>
- Imogen Matthews December 19th (2013). Brazil: A powerhouse for cosmetics and toiletries. Entered at: <http://www.in-cosmetics.com/Online-Press-Centre/Normal--Industry-articles/BrazilPowerhouse/>
- Import Duty, Brazil (2014). Entered at: <http://www.dutycalculator.com/country-guides/Import-duty-taxes-when-importing-into-Brazil/>

- Import Duty, USA (2014). Entered at: <http://www.dutycalculator.com/country-guides/Import-duty-taxes-when-importing-into-the-United-States/>
- In-Cosmetics, Home (2014). Entered at: <http://www.in-cosmetics.com/home1/>
- Indexmundi, Brazil Inflation rate (2014). Entered at: [http://www.indexmundi.com/brazil/inflation_rate_\(consumer_prices\).html](http://www.indexmundi.com/brazil/inflation_rate_(consumer_prices).html)
- InfoSur Hoy (2009). Lula frustrated that Brazil's lofty environmental goals are not being matched worldwide. Entered at: http://infosurhoy.com/en_GB/articles/saii/features/main/2009/12/18/feature-01
- Investopedia 2013: Brazil, Russia, India And China - BRIC (Last entered 14/11/13). Entered at: <http://www.investopedia.com/terms/b/bric.asp>
- ISAPS (2011). International survey on aesthetic/cosmetic procedures. Entered at <http://www.isaps.org/Media/Default/global-statistics/ISAPS-Results-Procedures-2011.pdf>
- Jones, Geoffrey. August (2012). Harvard Business review Magazine: The growth opportunity that lies next door. Entered at: <http://hbr.org/2012/07/the-growth-opportunity-that-lies-next-door/ar/>
- Korres, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=1133
- Laporte, Cathy. January 16th (2014). Booming Brazil: the 3rd bastion of the beauty industry. Entered at: <http://www.in-cosmetics.com/en/Online-Press-Centre/Normal--Industry-articles/BoomingBrazil/>
- Lennard, Carrie. July 13th (2011). BRIC: Continued Domination of Global Beauty Sales. Entered at: <http://www.gcimagazine.com/marketstrends/regions/bric/125481838.html>
- Levy, Yuval. March (2005). Michael Porters five strategic market forces Entered at: <http://www.photopla.net/wwp0503/exit.php>
- Malinowski, Matthew. August 29th (2013). Bloomberg: Brazil Raises Rate to 9% as Real Undercuts Inflation Fight. Entered at: <http://www.bloomberg.com/news/2013-08-28/brazil-raises-rate-to-9-as-currency-undercuts-inflation-fight.html>

- Manufacturing (2014). Manufacturing and supply chain. Entered at:
<http://www.avoncompany.com/corporatecitizenship/corporateresponsibility/sustainability/managingourproductlifecycle/manufacturing-supply-chain.html>
- Matthews, Imogen. December 19th (2013). Brazil: A powerhouse for cosmetics and toiletries. Entered at: <http://www.in-cosmetics.com/Online-Press-Centre/Normal--Industry-articles/BrazilPowerhouse/>
- McKinsey (2014). The Beauty of Brazil. Entered at:
http://csi.mckinsey.com/Knowledge_by_region/Americas/brazilbeauty.aspx
- Morgan, Jamen P. (1998). Purchasing. Entered at:
<http://www.referenceforbusiness.com/small/Sm-Z/Supplier-Relations.html#b>
- Morris, Harvey. April 26th (2013). The Beauty Market resist recession. Entered at:
<http://rendezvous.blogs.nytimes.com/2013/04/26/the-beauty-market-resists-recession/>
- Natura (2014). Entered at: <http://www.innovalatino.org/brazil.html>
- Nichol, Katie. July 2nd (2010). LVMH acquisition in Brazil marks entry of Sephora into market. Entered at: <http://www.cosmeticsdesign-europe.com/Business-Financial/LVMH-acquisition-in-Brazil-marks-entry-of-Sephora-into-market>
- Nichol, Katie. May 10th (2011): CosmeticDesign-Europe.com. Product innovation and wider distribution drive Brazilian cosmetics market. Entered at:
<http://www.cosmeticsdesign-europe.com/Market-Trends/Product-innovation-and-wider-distribution-drive-Brazilian-cosmetics-market>
- Oanda (2014). Entered at: <http://www.oanda.com/currency/converter/>
- OECD (2014). The OECD better life index – Brazil. Entered at:
<http://www.oecdbetterlifeindex.org/countries/brazil/>
- OECD, Brazil (2014). Entered at: <http://www.oecdbetterlifeindex.org/countries/brazil/>.
- Our Heart, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=235

- Pitman, Simon. 28th June (2012). Brazil Market for cosmetic continues to shine. Entered at: <http://www.cosmeticsdesign.com/Market-Trends/Brazil-market-for-cosmetics-continues-to-shine>
- Press Release (2014). Korres. Entered at: <http://ir.korres.com/korres/app/cms/lang/en>
- Product Awards, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=231
- Product development, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=222
- Rapoza, Kenneth. August 16th (2013). Forbes: Barclays: Brazil Currency To Weaken Further. Entered at: <http://www.forbes.com/sites/kenrapoza/2013/08/16/barclays-brazil-currency-to-weaken-further/>
- Research, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=241
- Sahota, Amarjit. August 28th (2013). Brazil: The natural beauty? Entered at: <http://www.in-cosmetics.com/en/in-cosmetics-blog/BrazilTheNaturalBeauty/>
- Saint-Leger, Randolph, 2014. Pros & Cons of Differentiation Strategy. Entered at: <http://smallbusiness.chron.com/pros-cons-differentiation-strategy-21452.html>
- Store opening opportunity, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=287
- Stuart Collins. March 31st (2014). Business Insurance. Brazil's Stable politics, economy offset by higher taxes, crime. <http://www.businessinsurance.com/article/99999999/NEWS040102/120309899?tags=%7C59%7C332%7C338%7C76%7C313%7C80%7C84%7C342>
- Suttle, Rick, 2014. The disadvantage of direct selling. Entered at: <http://smallbusiness.chron.com/disadvantages-direct-selling-23209.html>
- Tax, Brazil (2014). Entered at: <http://www.tradingeconomics.com/brazil/tariff-rate-applied-simple-mean-all-products-percent-wb-data.html>

- Tax, Europe (2014). Entered at: <http://www.tradingeconomics.com/europe-and-central-asia/tariff-rate-applied-weighted-mean-manufactured-products-percent-wb-data.html>
- The Brazil Business. January 30th (2014). Entered at: <http://thebrazilbusiness.com/import-tax-guide/beauty-makeup-preparations-preparations-for-care-skin-than/sp/33041000-1>
- The Brazilian Business (2014). Political Parties in Brazil. Entered at: <http://thebrazilbusiness.com/article/political-parties-in-brazil>
- The Economist August 09th (2012): The road forsaken. Entered at: <http://www.economist.com/node/21560309>
- The Economist February 13th (2014). Brazilian energy - Rain-Checked. Entered at: <http://www.economist.com/news/americas/21596530-parched-southern-summer-may-cause-electricity-crisis-rain-checked?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a>
- The Economist February 17th (2011). Brazil's fiscal policy. How tough will Dilma be? <http://www.economist.com/node/18178315>
- The Economist February 25th (2010). Corruption in Brazil: The money trail. Entered at: <http://www.economist.com/node/15580390>
- The economist intelligent unit. November 15th (2013). Is Brazil sailing into a “perfect storm”? Entered at: <http://country.eiu.com/article.aspx?articleid=1141179298&Country=>“Brazil&topic=Economy
- The Economist May 22nd (2003). Pots of promise. Entered at: <http://www.economist.com/node/1795852> pp. 227- 237
- The Economist Nov. 1st (2011). Focus Brazil. <http://www.economist.com/blogs/dailychart/2011/11/focus>
- The economist October 17th (2013). Brazil's development banks – A ripple begets of flood. Entered at: <http://www.economist.com/news/finance-and-economics/21588133-politically-inspired-surge-lending-weakening-state-owned-banks-latin?zid=305&ah=417bd5664dc76da5d98af4f7a640fd8a>

- The Economist, About Us (2013). Entered at: <http://www.economist.com/help/about-us>.
- The Economist. September 26th (2013). The Road to hell? Entered at: <http://www.economist.com/news/special-report/21586680-getting-brazil-moving-again-will-need-lots-private-investment-and-know-how-road>
- The ingredients, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=236
- The Korres pharmacy, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=218
- The World Bank (2013). Country and region specific forecasts and data. Entered at: http://www.worldbank.org/en/publication/global-economic-prospects/data?variable=BNCABFUND_CD_®ion=LAC
- The World Bank (2013). Doing Business. Entered at: <http://www.doingbusiness.org/rankings>
- The World Bank (2014). Doing business report. Entered at: <http://www.doingbusiness.org/data/exploreeconomies/brazil>
- The World Cement (2013). Construction in Brazil: PAC 2 Paving the Way for the Future. Entered at: http://www.worldcement.com/news/BRICs/articles/Construction_Brazil_PAC_2_Paving_the_Way_for_the_Future_42.aspx#.UvzLvhwqRwc
- The World Cement (2014): Construction in Brazil: PAC 2 Paving the Way for the Future. Entered at: http://www.worldcement.com/news/BRICs/articles/Construction_Brazil_PAC_2_Paving_the_Way_for_the_Future_42.aspx#.UvzLvhwqRwc
- Timeline, (2014). Korres. Entered at: http://www.korres.com/default.aspx?page_id=198
- Travel.State.Gov (2013). Entered at: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1072.html

- Udenrigsministeriet (2010). Entered at:
http://www.netpublikationer.dk/um/10530/html/printerversion_chapter06.htm
- Udenrigsministeriet (2013). Entered at:
http://www.netpublikationer.dk/um/10530/html/printerversion_chapter06.htm
- Waysman M. and Savaya R. (1997). Mixed method evaluation: A case study. Vol. 18, No. 3
- Whitehouse, Lucy. April 2nd (2014). Consumer enthusiasm for naturals gives rise to tasty trend. Entered at: <http://www.cosmeticsdesign-europe.com/Market-Trends/Consumer-enthusiasm-for-naturals-gives-rise-to-tasty-trend>
- World Bank (2012). Brazil. Entered at:
<http://www.worldbank.org/en/country/brazil/overview>
- World Bank (2010). Lifting families out of poverty in Brazil-Bolsa Familia Program. Entered at:
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20754490~menuPK:141310~pagePK:34370~piPK:34424~theSitePK:4607,00.html>
- Yeomans, Michelle. July 27th (2013). Cosmetics Design-Europe.com. “Global Organic Cosmetics market to reach \$13.2 billion by 2018”. Entered at:
<http://www.cosmeticsdesign-europe.com/Market-Trends/Global-organic-cosmetics-market-to-reach-13.2-billion-by-2018>

Source of appendix and Pictures:

1. Press Release. Entered at: <http://ir.korres.com/korres/app/cms/lang/en>
2. PESTEL. Entered at: <http://www.professionalacademy.com/media/images/PESTEL-Analysis.jpeg>
3. Porter’s Five Forces. Entered at:
<http://www.bing.com/images/search?q=porters+five+forces&FORM=HDRSC2#view=detail&id=44EA2141E458668A2BFEE71A76BD426533743353&selectedIndex=4>
4. Goldman Sachs. Entered at: <http://www.globalsherpa.org/bric-countries-brics>

5. Brazil Interest Rate (2014)
6. Brazil Inflation Rate (2014)
7. Brazil Real (2014)
8. Current Account (2014)
9. Brazil Balance of Trade (2014)
10. Brazil Employed persons (2014)
11. Age Structure. Entered at: <http://bpradhan-sciencequest.blogspot.dk/2011/08/based-on-brazils-current-population-age.html>. (2014)
12. Distance from Greece to Brazil. Entered at: <http://www.distancefromto.net/distance-from/Greece/to/Brazil>
13. Definition of Taxes. The Brazil Business (2014)
14. Authorization of Import. Farah (2013)
15. Interview with Isabella Sakarellou, Head of Export Marketing & Business Development in KORRES (2014)

Appendix

1. Press release



KORRES PRESS RELEASE



AVON & KORRES ENTER INTO STRATEGIC ALLIANCE IN LATIN AMERICA

Avon Products, Inc. (NYSE: AVP) today announced that it has entered into an agreement with KORRES to manufacture and market KORRES products in Latin America. Created by a Greek pharmacist - George Korres, KORRES is a Greek skincare brand established for its highly efficacious natural formulations.

This strategic alliance starting in February 2014 can expand up to 14 years with the option for Avon to purchase the remaining KORRES intellectual property for the Latin America territory.

The deal has secured KORRES \$11.5m in the first twelve months, breaking down to Trademark purchase price, up front and service fees, on top of the anticipated service fees and based-on-sales royalties for the forthcoming years.

Avon Latin America is Avon Product, Inc.'s largest business unit accounting for nearly half of Avon's revenue.

"Latin America is a growing beauty market and a major component of the Avon portfolio. I'm very pleased that through this strategic alliance, we can leverage Avon's extensive sales network and capabilities to bring the KORRES brand and products to more women across Latin America," said Sheri McCoy, Chief Executive Officer, Avon Products, Inc.

"Latin America has always been of interest to us. We feel there is a unique opportunity to reach consumers who share our values and philosophy; AVON is a strategic partner who can help us start another wonderful journey. This strategic deal offer us the opportunity for further growth" said KORRES founder, George Korres.

Born out of Greece's oldest herbal pharmacy, the brainchild of a pharmacist and a chemical engineer, KORRES is a natural skincare brand with over 400 products sold in 30 countries worldwide. Its philosophy remains the same as in its pharmacy days rooted in the use of natural and / or certified organic ingredients of the highest quality; skin- and environmentally-friendly products with clinically tested efficacy; products that are affordable for everyday use yet of interesting aesthetics that can 'inspire & make us happy.'



KORRES PRESS RELEASE



KORRES has also announced the set up of its USA subsidiary for North America and Canada – KORRES USA Ltd – which will be distributing KORRES direct to the North American market, allowing the Greek skincare brand to continue its successful presence in this priority market.

About Avon:

Avon, the company for women, is a leading global beauty company, with nearly \$11 billion in annual revenue. As one of the world's largest direct sellers, Avon is sold through more than 6 million active Independent Avon Sales Representatives. Avon products are available in over 100 countries, and the product line includes color cosmetics, skincare, fragrance, hair care and home products, featuring such well-recognized brand names as Avon Color, A-NEW, Skin-So-Soft, Advance Techniques, and more. Learn more about Avon and its products at www.LoveAvon.com.

About KORRES:

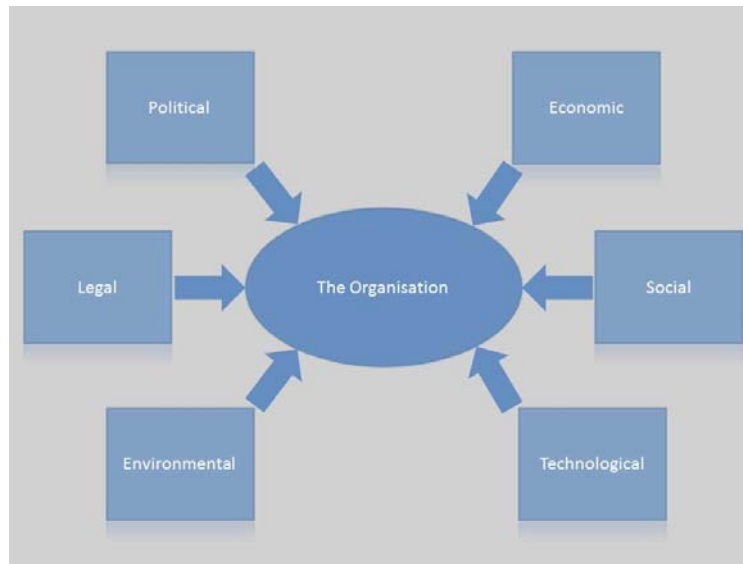
KORRES, a Greek skincare brand established in 1998 out of the oldest homeopathy pharmacy in Athens. The first KORRES product is an aromatic herbal syrup with honey and almond, a recipe inspired by traditional, a warming spirit-honey concoction, which George's grandfather used to favour in his hometown on the island of Naxos (learn more at www.korres.com)

For further information:

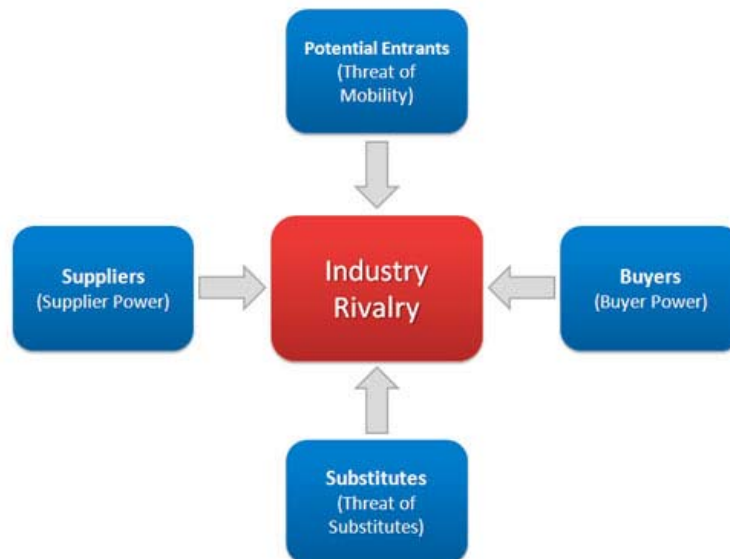
Athina Lagou / : + 30 213 018 8805 : athina.lagou@korres.com

George Anthoulakis / : + 30 213 018 8835 : george@korres.com

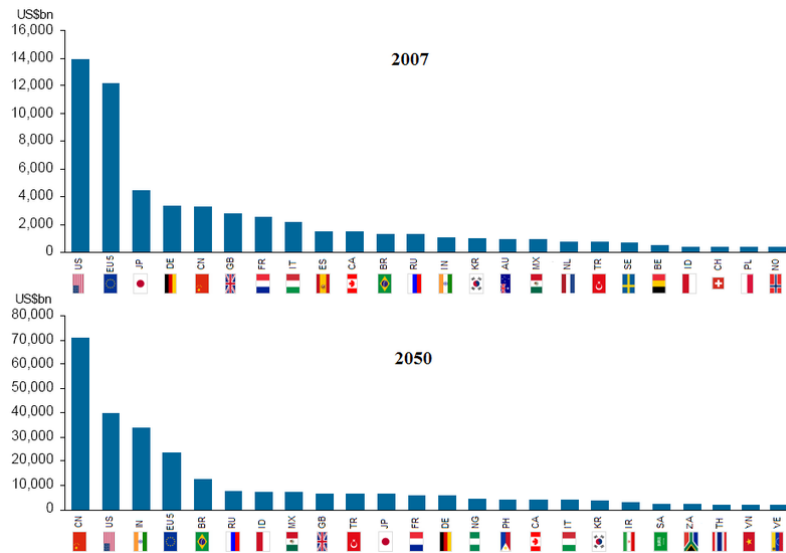
2. PESTEL Model



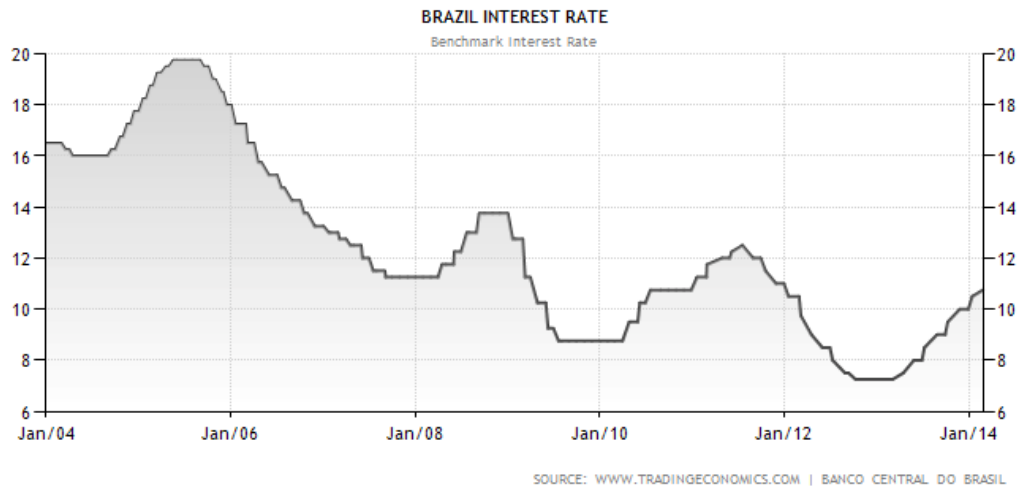
3. Porters Five Forces



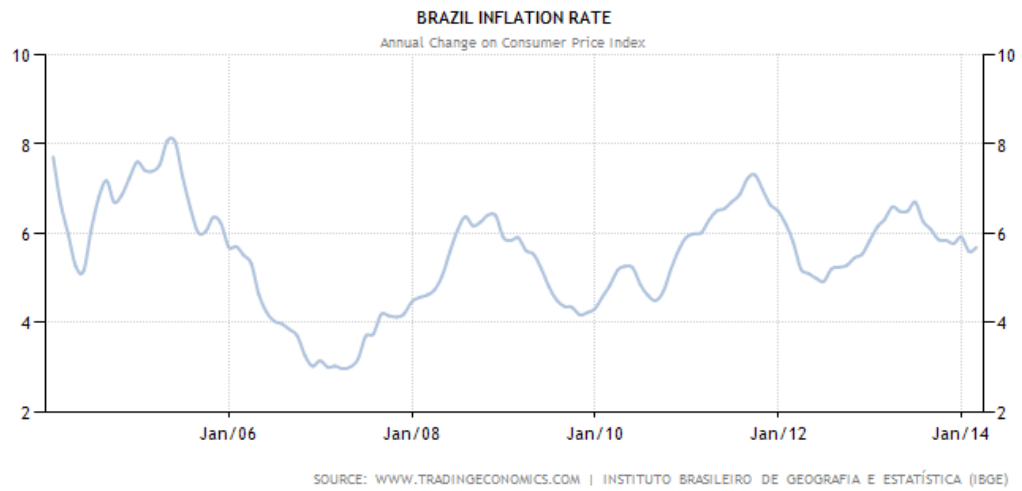
4. Goldman Sachs prediction



5. Interest Rate



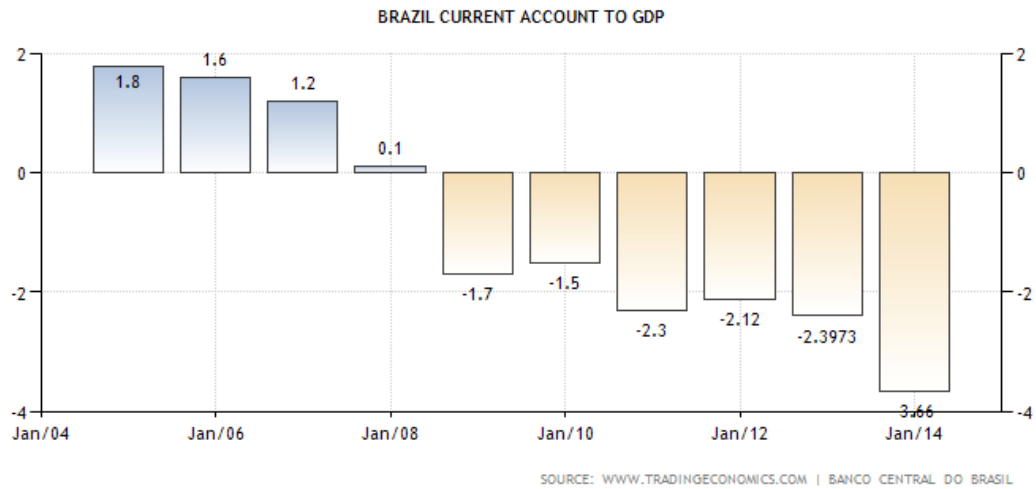
6. Inflation Rate



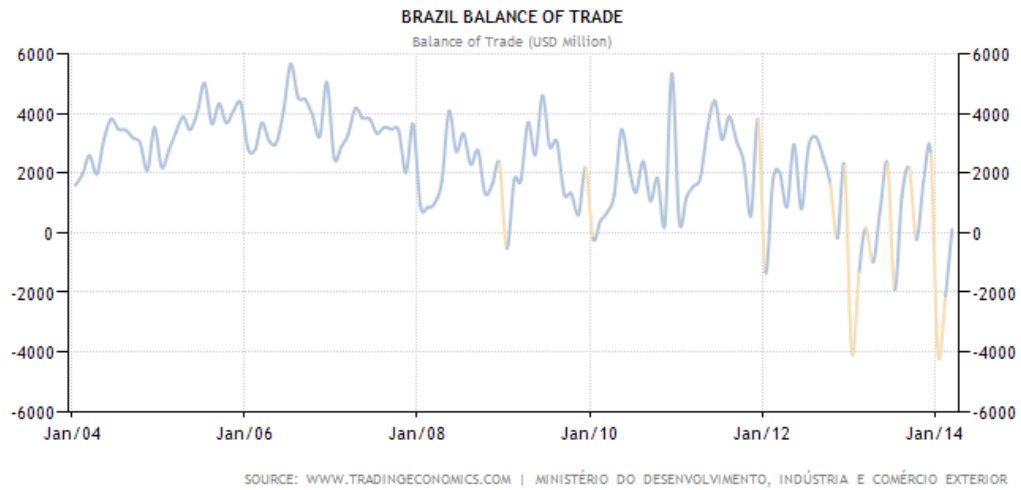
7. Brazil Currency development



8. Balance of Payment



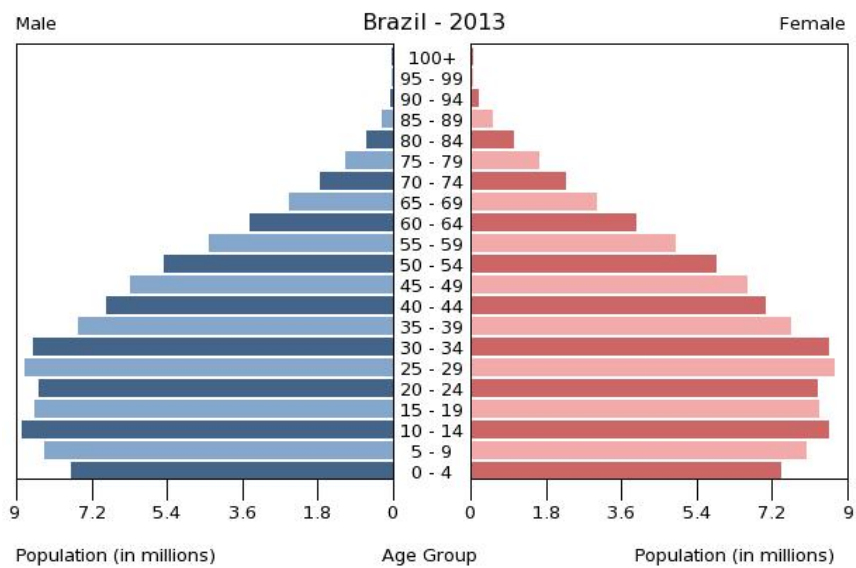
9. Balance of Trade



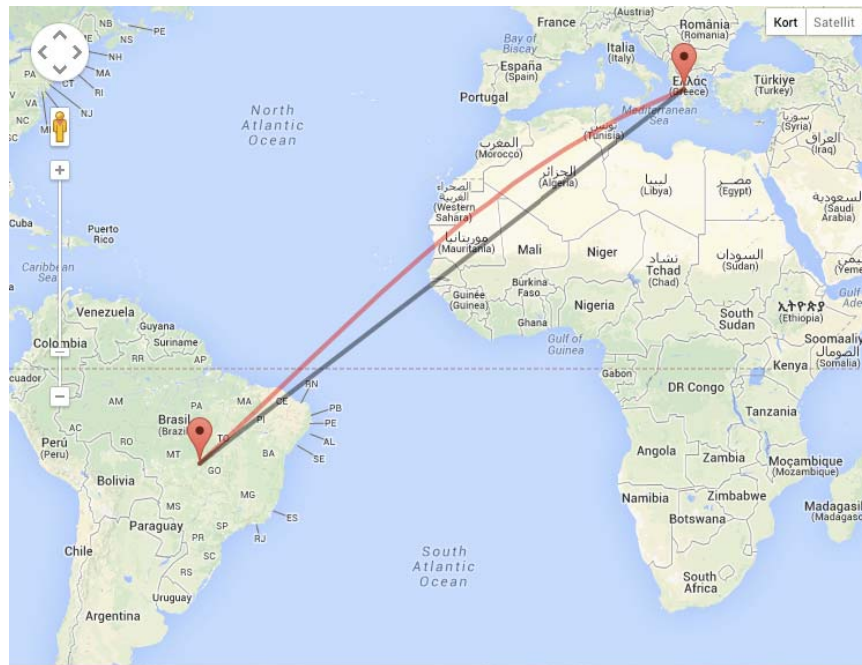
10. Employed Persons



11. Age structure



12. Distance from Greece to Brazil



13. Definitions of Taxes

The taxes in the chart signify the following:

- ICMS: State Sales tax
- IPI: Federal VAT Tax
- ISS: Municipal Service Tax
- COFINS: Social Contribution for Social Security, Federal Tax
- PIS: Employee's Profit Participation Program, Federal Tax (Brazil, Vatlive)

14. Authorization on import in Brazil

Imported cosmetics must have the same authorization that cosmetics manufactured in Brazil have:

- Original document and copy of the Formulário de Petição de Autorização (Authorization Petition Form)
- Guia de Recolhimento (Collection Form) from ANVISA/HM (Health Ministry)
- Declaration to the Anivsa/HM, registered at the Cartório de Títulos e Documentos, or authenticated copy pleading to have discount in the collection of the Taxa de Fiscalização de Vigilância Sanitária (Health Surveillance Fiscal Tax), if necessary
- Letter of attorney of legal representative, if necessary
- Copy of the Contrato Social (Social Contract) registered in the Junta Comercial, with a description of what was requested
- Copy of the General Taxpayers' Register (CGC) or Corporate Taxpayers Registry Number (CNPJ)
- A declaration of commitment of the technicians, issued by the Conselho Regional de Classe (Regional Council of Category), nominating the name of the technical responsible
- Technical report of the equipments – and their specifications – owned by the company for the activities pleaded
- Ficha de Autógrafos (Signatures Sheet) of the legal representative and the technical responsible, in tow copies
- A technical report with the quality description of the control equipments
- A two-copy report of the installations that the company owns
- A short list describing the products' features
- A document providing the complete address of all the branches, warehouses and representatives of the company.

Besides these documents, import companies also must present:

- A certificate of free sale (known as CVL) or a certificate of free commercialization, issued by the country of origin
- The original formula of the product
- A declaration, issued by the exporter, that the establishment meets the requirements of the Verificação do Cumprimento das Boas Práticas de Fabricação e Controle dos Estabelecimentos das Indústrias de Higiene, Cosméticos e Perfumes document (a document testifying the good manufacturing practices and control of the toiletries, cosmetics and fragrances industrial establishments).

The importing company is also required to present an Inspection Report (Relatório de Inspeção) with a conclusive technical opinion issued by the local Health Surveillance (VISA) subsidizing ANVISA/HM or not with the concession of the Autorização de Funcionamento (authorization to operate).

15. Interview

Interview 1. With Isabella Sakarellou, Head of Export Marketing and Business Development in KORRES. Interview and answers in bullet form.

Interview with KORRES regarding entry strategy into Brazil

What type of product do you see KORRES as?

- Value for money
- Scientific natural brand
- They are one step ahead of their competitors
- They use primary research
- Superior to other product. Tested ex vitro and in vitro
- Tested to be more efficient than other products in Greece and natural brands

What is the main idea behind the alliance with Avon, that uses a direct sales model, instead of using a retail store as Sephora or opening a store? Did you consider other entry strategies or companies?

- Avon came to them
- Sometimes the market is different, and they knew that. It is not always the optimal environment to be in a premium selected competition environment.
- Avon holds a large market share, so they thought it would be the best solution
- It is not a market for premium products, and the European market is different from L.A. Thus entering with Sephora wouldn't give the wanted effect
- They want volume and saw Avon as the one who could give them this
- She says that KORRES is premium products and L.A. is too big for them to enter alone
- Their main strategy in Europe is through pharmacies as the scientific products they produced are very suited for this channel and market. Pharmacies is a good channel for cosmetic

- Alliance with Avon would be a good approach. The ideal partner for them as they regard Avon as a strong player that rules the market
- They would use the same strategy in other developing countries, if the right partner came
- Not exploit the full potential of the market without the strategic partner
- Look at each different market and see what is the most suitable way to enter. This is done in Europe, the US and L.A.
- They need to be more massive in the sense of volume and not quality

Have there been country specific factors that have influenced your decision in entering with Avon and entering in general?

- The country was very different from what they knew, and they didn't have enough knowledge of the country, the language, the culture, social factors
- Avon knows the culture and is a big player. Have most of the market share
- L.A. countries have characteristics of economic development
- More safe to enter with a established partner
- Long distance makes it the optimal entry

Have there been factors in the beauty industry in Brazil that have influenced you decision of an alliance? E.g. high import taxes, retail structure, mass product country ect.? And have this affected your entry strategy?

- Import taxes are too high for KORRES to overcome, so entering with the alliance, where Avon produces the products in Brazil, decreases the cost.
- The retail structure of Brazil and how they sell products, have been one of the main reasons for the entry strategy
- They know it is a mass product country, so entering with Avon can give them more sales volume as they wish
- They let Avon do the work of adapting the products to the Brazilian culture

What do you see as some of the main internal barriers to enter Brazil?

- Lack of knowledge of the country
- Cost of setting up stores

- And the long distance
- They have knowledge of the European culture, and is market leaders in Greece, but they miss knowledge of the market structure and how to do business in Brazil, as the country is very much different from the rest of the world

Why haven't KORRES entered before?

- Because there haven't been any opportunity to enter, as they needed the skills and knowledge. So when Avon came to them, they saw an opportunity
- To high barriers to enter the market, too expensive
- High import taxes has made it impossible

Which type of alliance is it? Joint venture, channel partner or agent, investment/finance, patent/trade-mark license, outsourcing (manufacturing)

- It is a channel partner, but also a patent/trade-mark licence, where Avon gets to use their brand name
- Outsourcing, as all the products will be produced in Brazil
- Avon will even make the own packaging for the products
- KORRES has to approve the packaging, but it will be suited for the Brazilian market
- They take the knowhow, expertise, formulas etc from KORRES
- KORRES only gets money, but no knowledge back. But opportunity to penetrate a new market

Are you still going to be targeting your products towards the same group of people in Brazil or will the alliance with Avon make you rethink your target group?

- The target group will be different, as it will be the middle income group
- The products will be presented in a way that fits the market and the new consumer/target group
- But KORRES sees themselves as making products for everyone, and not just one particular group

- But they know that the buyers will change in Brazil, compared to the buyers in Europe
- They are the number one brand in Greece, but knows that this will not happen in Brazil right away
- They will focus on the face products in Brazil, and try to maintain the focus on body products as well, but face products, will be the primary product range they will focus on getting out to the consumers

What will Avon mean to your brand? Are you still going to market Korres as an exclusive and high-end brand – or will you be branding Korres more in the lines with the Avon products?

- The products will be branded under Avon and together with Avon's products
- KORRES don't have any agreement on how it will be marketed or branded, they have signed an agreement of giving the rights to Avon, with certain rules, but mainly, it will be Avon that are in control of the marketing, thus KORRES don't have that much to say

Do you have an alignment of strategy and objective? What is it?

- No not really
- Avon will have the rights to sell the products and the only object is to get as much volume as possible
- But they have change the focus to be on the facial products, compared to the former focus on the body
- They want to keep the feeling and sent of the products and focus on the tested result and effect on the facial products
- Not only a scientific brand, also the feeling
- They say they can cover both the feeling the products give and the scientific part, when addressing different consumers.

Are you afraid of losing brand quality, when selling the products together with lower quality products? And have you thought about the cognitive perception of the products in the minds of the consumers?

- They are not afraid of losing brand quality, as they state that the quality will stay the same. The products will still be produced with the same ingredient, just in another country
- They focus on three very important aspects of the products, and that is the beautiful packaging, innovation & science and natural ingredients
- Isabella says that this is their competitive advantage
- Compares them to a chameleon. Says that they are a chameleon brand
- If they stand together with scientific products, they look beautiful. If standing with natural they look scientific. If standing with beautiful products, they offer something different. This is according to Isabella the added value to the brand. That is also why they can use different distribution channels.
- When they are compared to other natural products, they will always have a competitive advantage. That can be the smell, the look of the products and the innovation
- Competitors don't have all three "ingredients", and when the products of KORRES are being compared to other products, competitors' products will always lack one of the three aspects

Have you thought about the time your products get with each potential customer – is there a certain time frame the product gets, or is it up to the seller?

- They don't have any influence regarding time frame. It will be up to Avon
- They haven't settled on it yet, as they haven't started to sell the products in Brazil yet, but it hasn't been something they have thought about
- Details not been settled
- Avon make their own KORRES portfolio

Will you have any form of follow-ups?

- There will be follow ups, but they haven't settled on how this will be done. Brazil is far away and it is time consuming and costly for KORRES to travel to Brazil, so it seems as they will let Avon handle it

- This is also why they have chosen the alliance and given Avon free hands, so they don't have to make follow ups as they do in Europe
- It will save them money
- Avon is the owner of the project
- Agreed on what they can do and not do

How will you make sure that the brand identity stays the same?

- They can't be sure of this, as it is a new market and they have to adapt the products to the new market and consumers
- They change the packaging. Follow local rules
- They target a new consumer group with a new approach, and let Avon do this. The way Avon sells products
- A new territory with its own rules
- Better to be there and enter with Avon, instead of not entering at all
- Procedures to ensure KORRES agrees with the design

What type of brand do you see yourself as?

- They see themselves as a product with high quality and very innovative. As one step ahead of the competitors
- They have experience of being on the market for many years, and have kept innovating the products. Isabella repeats the three competitive advantages they have. Packaging, innovation and natural

Could you see yourself selling KORRES through pharmacies in Brazil in the future?

- No not at the moment
- It is not always about what the pharmacies sell, but who sells them
- They lack skilled workers, according to Isabella, to sell their products
- Scientific consultant for the consumers
- If pharmacies don't have cosmetic growth, they can not guarantee to be the optimal channel
- Pharmacies need to be trained

Who trains the sellers in Brazil?

- KORRES trains Avon and Avon trains its sellers

Interview 1. Isabella Sakarellou, Head of Export Marketing & Business Development in KORRES. Fully transcript of the interview

Interviewer: Welcome, and thank you for taken the time to do this interview with me.

Isabella, what is the primary idea behind this alliance with Avon, and how come you have chosen this specific distribution channel?

Isabella: according to its country we have different distribution channels. Perhaps this is not something strong multinational companies do because they are well established. Regarding KORRES I can distinguish between European mature countries where we target in pharmacy chains. Pharmacies are in any case more developed for cosmetic business in Europe and northern Europe. This has been the main channel for Greece where we have almost 90% of the business through this channel. This is because the founder of the company as well is a pharmacist and the roots of this brand is perceived as a scientific natural brand and not only natural in terms of tradition. There is this misconception a lot of a time, natural products are considered as natural simple products. KORRES has taken the next step with R&D formulas based on primary research not many cosmetic brands do this. So we have a scientific part, which is important, and make the brand suitable for pharmacies. And this is the main strategy in Europe. Of course we are in selected stores as well, but the main strategy is for Europe pharmacies. For the less developed market as L. A. KORRES might be a more premium products compared versus to local products in L.A. in the other hand, KORRES could not enter on their own, to la because it is a huge market with its own rules and it would be difficult for a brand coming from Greece to go to Latin America and establish the brand on the market. So we searched for the most suitable partner. They didn't search Avon came to us, and we thought it would be a great opportunity since Avon rules in L.A. market and it could be an ideal partner for KORRES to

enter l. a. with such a strong player as Avon. The same strategy would apply if the right partner could be found in other developed countries. These countries apart from having characteristics of economic development, they are also in a long distance away from local market. So a lot of factors and handling is different so it is always more safe to do business with an established partner, in these distance and country that have other economic situation and socio cultural factors.

Interviewer: the social cultural barriers are high then?

Isabella: yes exactly. For the rest of the market that is also of great important the northern Europe, pharmacies have not been the selected channels there are other approached such as retailers, and a selective distribution. We offer a very value for money product versus competition, that is either mass, either scientific, but cannot offer at the same time science, natural ingredient and beautiful packaging. So we have a competitive advantage in this kind of environment because we are like a chameleon brand. We have tree different aspect. If we stand near scientific products, we look very beautiful. If we stand next to natural we look scientific. And if we stand near beautiful product we offer something different. This is the added values the uniqueness of the brand. This is why we have been able to stand in different distribution channels. If you think of a purely pharmaceutical brand, you cannot easily imagine this brand to be located through different channels. I don't want to mention a brand knows, but you can imagine one. A very strict brand.

It is not a brand you would buy for your friend or as a gift, and a brand that was so beautiful that you cannot resist. Something KORRES offers. One the other hand especially on face category's products, which is the focus on the company now in brazil, we have done primary research, we have used formulas tested in vitro in vivo, which prove that KORRES products are superiors to products that led's the rest of the market. I am talking about comparative test between ex leaders and KORRES brand. So we have proven to be more efficient than the most expensive cream sold in Greece. More efficient than the scientific brand ex sold in Greece. Or that 100% of women would change their cream to black pine facial cream. So these are things not other natural brand have in their hands and properties.

Interviewer: is that something you want to market yourself on, when you go into Brazil?

Isabella: it is not the only priority. We have two main priorities. One is the high scientific proven result with the face category products and the other is that we want to keep the attractive appealing feeling and sense the body products provide to the consumer. So it is two directions. It is not we want to become only a scientific brand and lose the feeling. This does not mean that you cannot address the same consumers. Because it is other things that you search in a body products and other things that you want to find in a face product. And these things we both can cover.

Interviewer: so the sellers who go out in Brazil and sell you products, do the products of KORRES have a certain amount of time when being out at the customers home? Are they targeting the same consumers that normally buys Avon's products, because you are part of an umbrella brand now, when you enter Brazil so does your products have a certain amount of time when you come out to the consumers? Does your products have say 20 minutes where the sales person only talk of KORRES products?

Isabella: this is a detail that has not been settled yet, because the products have not been sold in Brazil yet. What I can say is that Avon is going to make their own KORRES portfolio. They are going to use KORRES formulas, ingredients and everything, but they are going to design their own packaging. In order to be suitable for the market. It is not going to be something totally different, but you have to follow the local rules. So it is not that you see KORRES and you aren't going to recognize it, but eh, they are going to have their own.

Interviewer: that makes sense, since the culture in Brazil is very different from that of Europe and Greece.

Isabella: exactly

Interviewer: I analysed that especially the cultural factors could be a high barrier of the country.

Isabella: Yes. Well, in any case, all these things are under progress, so perhaps something will change and be discussed in a later phase. And we take another decision, but this is the general idea.

Interviewer: but do they import the products and then make the packaging?

Isabella: this is also to be discussed, but both options. Production is going to be in L.A.

Interviewer: Okay

Isabella: not to be transported full products from Greece.

Interviewer: that makes sense as well since import taxes are very high and you have to have all the right documentation in order.

Isabella: so what they take from KORRES is the know-how, formulas scientific expertise, and they are going to product based on these formulas.

Interviewer: okay. And do you get anything back from Avon besides money? Because when you do it like this, give a lot of knowledge to Avon, which they can eventually use

Isabella: Of cause they have invested upfront a large amount of money to KORRES, and eh they are also going to pay some royalties on a yearly basis. Eh but it is mostly money and KORRES gets the opportunity to penetrate its market and increase brand awareness.

Interviewer: are you afraid of loosing brand identity, that there won't be synergy?

Isabella: Not very much because it is a territory that works by its own rules and a territory that we could not approach ourselves. So instead of not being there at all, we cannot loose more by not being there. And of course there are going to be some procedures to ensure that KORRES agrees with the design of the products and the way it is treated by Avon.

Interviewer: Are you going to have follow-ups then? Because if you have to agree on the packaging and stuff, and since you have follow ups on your store and distributors, it must be difficult due to the distance? And time consuming and expensive. Do you leave everything in the hands of Avon and says" take care of this" or how will you proceed?

Isabella: we will have some follow-ups, but Avon is the owner of the project. So we have agreed and signed some things of what they can do and cannot do and this is the

deal between the two companies. So they are supposed to be doing whatever is agreed.

Interviewer: Ha-ha, yes “supposed to due”.

Isabella:

Avon is one case, one good case in the market of Latin America, because it is a market that we could not have used the full potential, without such a strategic partner. But in other territories we chose how to enter the market, according to other local conditions. So US and Germany we have know our own subsidiary, and this is because in Germany we have seen that the products fit very well with natural brands, consumer perception. So Germany has been a very mature market and eh requesting natural brand from the past. KORRES has been a very good option, because apart from natural ingredients, it offers them pleasure of using these products. Normally most natural brands, especially them who aims at 100% natural ingredients, tend to forget the other aspects of the products so perhaps they don't smell nice or the packaging is boring. KORRES gave this upgrade to the natural market. In us we have been in Sephora us for many years and we are doing good, and sales were increasing, so we decided to be aggressive in the market with our own subsidiary. But we also have independent distributors in other countries that perform well, and this is another option. It is normal a middle option, when the business growth well. Perhaps we take the decision to invest in a subsidiary.

Interviewer: I was wondering how come you didn't use Sephora in Brazil, because you use Sephora in other markets. How come?

Isabella: It is not always the optimal environment for the brand to be in a premium selective brand environment. Sometimes we need to be more massive in the sense of use. Not in the sense of quality.

And this is why pharmacies have been a very good option for us in local markets, because they offer the opportunity to be massive and approach a lot of consumers. But keep the quality and standard of consumer audience high and because of the scientific guaranty of the channel.

Interviewer: Would you recon that in the future you would market the products of KORRES through the pharmacies in Brazil, since it is an upcoming distribution channel?

Isabella: Perhaps in the future, but not know

It's not only that the pharmacies are growing, but also what are they selling. Are they well trained in selling cosmetics? Are they only trained in selling things that are prescribed by doctors, so they are not that commercial point of view? They are more like scientific consultants to the clients. In southern Europe this has been evolving quicker than in other territories, so pharmacies are a very good cosmetic destinations. But pharmacies alone, if they don't have cosmetic growth, as well, cannot guaranty that they are the optimal channels to sell cosmetics. So the pharmacies need to be trained, also for this part, because it is totally different from selling pharmaceutical products.

Interviewer: Are the direct sellers trained as well to sell your products? Do they get an introduction to the products?

Isabella: they will be trained by Avon, and Avon will be trained by KORRES. You cannot sell this product without training.

Isabella: Have you ever been to Greece?

Interviewer: Yes, but many years ago. I would love to go again some time

Isabella: When you go, you will see KORRES in another light, as we are the leading brand in Greece. We are the main brand you see when you enter the stores.

Interviewer: interesting. I will look forward to go there. Thank you very much for you time, I really appreciate it. It has been a pleasure.

Isabella: Likewise. Please send me an email if you have any further questions.