BBR BRAZILIAN BUSINESS REVIEW
v. 7, n.3
Vitória-ES, sept. – dec. 2010.
p. 64 - 86 ISSN 1808-2386 *DOI: http://dx.doi.org/10.15728/bbr.2010.7.3.4*

Internationalization strategy and foreign distribution channels: analysis of the brazilian cosmetics company Natura

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ABSTRACT: This paper describes the internationalization process of the Brazilian company Natura Cosméticos S.A., whose competitive differential is the development of products based on the biodiversity of Brazilian flora. We specifically focus on the company's different choices of distribution channels in foreign markets. The study is exploratory, relying on content analysis of secondary data. The results indicate that the company's internationalization process has followed the model of the Uppsala school (learning) and that the company has maintained the same distribution strategy (direct sales) in markets with similar cultures (Latin America), but for the European market (Paris) it preferred to establish a physical store because of the cultural differences of that market. The change of the distribution channel model in the European market led the company to develop new organizational competencies.

Keywords: Internationalization, distribution channels, biodiversity.

Received in 11/05/2008; revised in 10/06/2009; accept in 05/30/2010

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Editor's note: *This paper was accepted by Antonio Lopo Martinez*

1. INTRODUCTION

Market opening and technological advance have created a new competitive environment for companies, in which business has become increasingly global and competitive, forcing them to rethink their competitive strategies (GONÇALVES, 1998; GABRIEL, 2004).

Dawar & Frost (1999) suggested four possible positions firms can follow when faced with multinational competitors: (i) dodger, focusing on the local market, selling out or entering a joint venture; (ii) defender, leveraging local assets in market segments and focusing on niches where multinationals are weak; (iii) contender, focusing on upgrading capabilities and resources to compete with multinationals in the domestic market; and (iv) extender, focusing on expanding abroad into markets similar to those at home using competencies developed at home.

The majority of companies in emerging markets are considered to be unready to adopt an “extender” position in the face of more mature international competitors from developed countries (BARTLETT; GOSHAL, 1987; SIM; PANDIAN, 2003; TSANG, 1999). On the other hand, these companies have opportunities to start competing in the international market using the learning gained by competitors in developed countries that were pioneers in this type of initiative (URBAN, 2006).

According to Barbosa (2004), most outward bound investment from developing countries comes from South and Southeast Asia, but Latin America is not far behind in this process, with the highlights being Argentina, Brazil, Chile and Mexico, all of which have been contributing significantly to direct investment flows, mainly in the past decade. According to Fleury & Fleury (2007), Brazil had a closed market for many years, with a protectionist policy favoring its domestic companies, but now is an emerging and opening market, and some of its companies are belatedly expanding abroad gradually.

Starting a process of international expansion is a challenge for Brazilian companies because of their relative technological backwardness and lack of knowledge of international markets. Besides the natural challenges faced in such a process, Brazilian firms particularly need to build a positive image for their products abroad (ORSI; GOES, 2006). In the cosmetics sector, the market is highly competitive and is dominated by French, English and American brands. One of the challenges is to develop differential aspects that allow Brazilian companies in the sector to gain a sustainable competitive advantage. In this respect, the huge biodiversity of Brazilian flora can be identified as a factor for differentiation, based on the development of cosmetics that use active ingredients from this biodiversity (Gomes, 2006). However, besides products that leverage this biodiversity, the distribution and marketing strategy is also a key factor for the success of these products (GARCIA; FURTADO, 2002).

With the growth of international ventures and the dispersion of productive and commercial bases among countries, the importance of an effective flow of raw materials and finished products among various places increases proportionally, making it vital for companies to define effective sales and distribution strategies (SCHNEIDER, 2002).

To shed light on the internationalization of Brazilian companies, this article describes the international expansion process of a Brazilian company, identifying the entry model adopted and discussing the distribution channels chosen to operate in the global setting.

2. THEORETICAL BACKGROUND

According to Barretto & Rocha (2003), internationalization is a process by which companies becomes involved in other countries besides their home market. It can occur basically in two ways: inward, by means of imports, licenses for local production, franchising or technology sharing agreements, or outward, by means of exports, granting of production licenses, franchising or technology sharing agreements or direct investment abroad.

Analogously, Hill (2000) defined international strategy as the sale of products in regions outside the domestic market, in which the firm seeks new opportunities. According to Hitt et al. (2002), a firm’s international strategy can be defined at the corporate or business unit level, classified in the corporate ambit as multidomestic, global or transnational, while at the business unit level the strategy follows the general definitions of Porter (1989): cost leadership, differentiation or focus.

According to the definition of Goshal (1987), in a multidomestic strategy a firm seeks to adjust its products to satisfy the needs of customers in each country. This requires that decisions be decentralized in each business unit that operates in these countries.

On the other hand, in a global strategy, the firm relies on standardized products to compete globally and competitive strategy is defined and controlled centrally by the parent company. Yip (1989) also distinguished these two strategies, stating that in the multidomestic one firms try to maximize their worldwide performance by maximizing their local advantages, revenues and profits, while in the global strategy firms seek to maximize their global performance by sharing and integrating resources.

Bartlett & Goshal (1987) defined the transnational strategy concept as the search to obtain both global efficiency and local flexibility. According to Hitt et al. (2002), this is a combination of the multidomestic and global strategy.

There are two different research strands on internationalization: the “economic approach”, where the process is analyzed rationally according to economic aspects and optimal allocation of resources; and the “behavioral approach”, whereby the subjective factors of the decision-making process for internationalization are assessed and this process is seen as a gradual sequence of adjustment to factors of the firm and its environment (BARRETO; ROCHA, 2003).

In the economic approach, the eclectic paradigm defined by Dunning (1988) stands out, in which the internationalization process is determined by three types of advantages: “ownership advantages”, such as technology, products and skills; “location advantages” of the country of origin or destination; and “internalization advantages”, referring the inherent advantage of multinationals’ hierarchical organization structures. This model is known by its initials OLI (Ownership, Location and Internalization).

The model forged by scholars at the University of Uppsala (traditional in studies of internationalization of firms) fits in the behavioral approach. This model is known mainly from the article of Johanson & Vahlne (1977). It is based on the learning process, considering some assumptions such as: lack of knowledge is the biggest obstacle in the internationalization process; knowledge acquired through experience is the most important process in internationalization; and investment in the internationalization process occurs gradually. This model is based on the idea that firms invest more in the international market as they acquire more knowledge of this market, thus reducing their perception of risk.

According to Hemais & Hilal (2002), the behavioral model uses the concept of psychic distance, defined as differences in culture, language, government structure and other variables that interfere in the firm’s communication with the market and customers. Further according to these authors, the internationalization of companies tends to start in places similar to those where they already operate (smaller psychic distance).

However, the position of the Uppsala school has limitations due to its linear, incremental, schematic and determinist vision, which does not consider the possibility of jumping steps or that the sequence and pace of internationalization can be dictated by different types of environments or industries (ANDERSEN, 1993; BARRETTO, 2002).

An evolution of the Uppsala school of thinking is the theory of networks or relationships, which emphasizes that the internationalization process can result from intra-organizational relationships among a firm's subsidiaries and inter-organizational ones between subsidiaries and external actors such as suppliers, customers and competitors (BJÖRKMAN; FORSGREN, 2000).

2.1 Determinants of the internationalization process

Brazil began opening its market in the 1990s. This shift required local firms to become more globally competitive and also prompted many to look for new markets abroad (ALEM; CAVALCANTI, 2005). Another determinant of the internationalization process is research and development (R&D) activities. Alem & Cavalcanti (2005) pointed out that when firms start operating in various countries, they obtain access to new technologies, previously constrained with only local operation. Besides this, the greater production scale reduces the relative cost of developing new technologies.

According to Vernon (1996), firms that seek international diversification must extend the life cycle of their products by selling them first in the external market from their domestic production, and then as demand increases, by making direct investments abroad in production capacity.

In a study of firms in Taiwan and Singapore, Sim & Pandian (2003) identified that they seek to expand internationally for the following reasons: to reduce labor costs; to assure access to raw materials, through joint ventures with suppliers; to obtain technology, through acquisitions or joint ventures; and to expand market opportunities, through access to countries of the North American Free Trade Agreement (NAFTA) or the European Union.

Besides these reasons, firms also expand to certain countries due to the cost and advantages offered, such as logistics facilities, publicity and regional relationships. Dunning (2002) identified new reasons for foreign direct investments, especially starting in the 1990s, with the explosion of the globalization phenomenon.

Among them are growth of regional integration, resulting from the maturation of economic blocs such as NAFTA and the European Union, and the spread of governmental policies to attract foreign direct investments. According to Alem & Cavalcanti (2005), internationalization allows firms to expand their markets, obtain scale gains, increase their specialization, obtain knowledge and strengthen their financial base, enabling new investments in technological developments.

2.2 International market entry modes

According to Buckley & Casson (1998), location costs, internationalization factors, financial variables, cultural factors, market structure, competitive strategy, costs of adapting to the local setting and costs of doing business internationally all are indicated in the literature as factors in the decision to enter a foreign market. Based on an analysis of the interaction of these variables, Buckley & Casson (1998) defined a model that contains 12 entry alternatives, among them direct investment in production and/or distribution, subcontracting, exportation to independent distributors and joint ventures for production and/or distribution.

According to Kim & Hwang (1992), entrance in the foreign market usually starts by exportation, because this does not require experience in producing abroad, only investment in marketing and distributing products. However, exportation implies high logistics costs and distribution is limited, which can make the exported products less competitive in the foreign market.

2.3 The internationalization of brazilian companies

The main reasons for Brazilian companies to internationalize according to a study by the business school Fundação Dom Cabral (FDC, 2002) are the search for economies of scale, development of competencies to allow further foreign expansion, exploitation of location advantages and saturation of the Brazilian market. These same reasons for a were indicated by Cyrino & Pinedo (2007).

For Ricupero & Barreto (2007), there are no determinant factors of internationalization that are specific for Brazilian firms. This is in broad agreement with the definitions of UNCTAD (United Nations Conference on Trade and Development), according to which the factors determining internationalization are similar to firms in any country, whether developed or emerging, that is, all firms seek resources, markets and technology.

Ricupero & Barreto (2007) also considered firms' foreign investments to be an indicator or the development of the economy and that by acquiring competencies, companies are better able to compete globally.

2.4 The importance of distribution channels abroad

According to Ventorini (2004), defining the distribution channel is essential for successful exportation and sale in the international market. For Stern et al. (1996), distribution channels involve a set of interdependent organizations involved in the process of making a product or service available for consumption or use.

According to Bradley (1995), the management of international distribution channels involves various means to transfer products and services from a supplier in one country to a customer in another. He added that the same type of distribution channels used in the home market do not always work when exporting, due to the complexity of international logistics.

The choice of distribution channel will directly influence the costs, and thus the final price of the product. Besides this, it plays a fundamental role in stimulating demand through the promotional activities of wholesalers, retailers and representatives (MACHADO; LIBONI, 2004).

For Stern et al. (1996), the distribution channel should be aligned with the product/market strategy followed by the organization. In other words, the distribution system can only be designed adequately if the firm has already clearly defined the product and the target public.

According to Ventorini (2004), the most significant factors in choosing a distribution channel are the nature of the product (size, weight, etc.), characteristics of the market (location, buying habits, purchasing power, etc.), qualification of intermediaries and advantages and disadvantages of dealing directly with end consumers without middlemen.

Machado & Liboni (2004) pointed out that distribution can be exclusive, intensive or selective. In exclusive distribution, the intermediary is not allowed to work with competing brands, while in intensive distribution the focus is on maximizing sales volume, to assure greater market coverage, spatial convenience and dispersion of risk. Finally, selective distribution aims to preserve the product’s exclusive image by choosing a reduced number of intermediaries.

According to Forner (1999), the types of channels and agents that collaborate to distribute and place products in different international markets are trading companies, commercial exporters, export consortiums, foreign sales representatives, importer-distributors and retailers.

One of the alternatives to distribute and sell products is direct sales, which Coughlan (2002) defines as the sale of a product or service to the consumer face-to-face, away from a fixed retail store. According to the Brazilian Association of Direct Sales Companies (ABEVD, 2007), direct sales is defined as “a differentiated system to market consumer goods and services based on personal contact between sellers and buyers, outside a fixed commercial establishment, ... present throughout the world and involving the most varied economic sectors, ranging from cleaning products to automobiles.”

2.5 The cosmetics market

The cosmetics industry as we know it today originated from the development of biochemical knowledge. The main international companies in the sector are huge transnational organizations that generally operate in various segments of the industry (cosmetics, perfumery and personal hygiene). These firms have important ties with the chemicals and pharmaceuticals areas, permitting economies of scale resulting from the close connection of these activities (ALMEIDA, 2006). The sector follows seasonal style trends and customs and invests heavily in launching and promoting new products and renewing the attributes of their formulas.

Firms from developed countries dominate the cosmetics, perfume and personal hygiene market, which in 2000 was worth US$ 195 billion, of which Western Europe, the United States and Japan represented 75% (GARCIA; FURTADO, 2002). Of the developed countries, France, the United State, England and Germany account for slightly over half of global demand for these products (GARCIA, 2005). Brazil occupies sixth place among the main international markets, with sales in 2000 of US$ 8.5 billion, slightly over 4% of the global market. This is a much higher figure than in other products (which are mainly in the range of 1% to 2%). This importance is attested by the presence of large multinationals in the sector, through local production in Brazil or imports.

Upon examining the characteristics of the cosmetics industry, Garcia (2005) identified that a prerequisite for establishing foreign production capacity is internationalization of commercial activities, since companies first seek to establish their brands and sales channels in foreign markets. Only after this step, and only in markets that look promising, will they establish factories to make cosmetic products.

Among these sales and distribution channels, direct sales stand out in the cosmetics sector. According ABEVD, cited in Garcia and Furtado (2002), direct sales in the United States account for around 10% of revenue, which in 1999 amounted to US$ 23 billion. According to the Brazilian Association of the Personal Hygiene, Perfumery and Cosmetics Industry (ABIHPEC) and the São Paulo State Perfumery and Grooming Articles Industry Association (SIPATESP), cited in *Revista Household e Cosméticos* (2007), the Brazilian personal hygiene, perfumery and cosmetics industry had shown average deflated growth of 8.2% in the preceding five years through 2004, with after-tax revenues rising from R$ 6.6

billion in 1999 to R$ 13.1 billion in 2004. There are currently 1,258 organizations active in this market, of them 16 that can be classified as large, representing 72.4% of the sector’s total sales revenue.

The products in the personal hygiene and cosmetics sector are distributed through three basic channels: traditional distribution, including wholesalers and retailers; direct sales; and franchising (ALMEIDA, 2006).

According to Garcia (2005), companies with well-diversified product lines typically choose distribution and sales through supermarkets and hypermarkets. On the other hand, firms with portfolios concentrated in perfumery and cosmetics opt for distribution via specialized stores or door-to-door selling.

According to figures from ABEVD, cited in Gomes (2006), Brazil stands in fourth place in the global direct sales ranking, behind only the United States. Japan and Mexico. In Brazil, perfumery, cosmetics and personal hygiene products account for some 90% of total direct sales in the country.

According to Ferreira (2000), cited in Almeida (2006), the great majority of direct sellers are independent entrepreneurs (mainly women), who accept the inherent risks of the business in an effort to complement their family income, viewing the activity as an alternative to traditional work. Door-to-door selling also brings the benefits of convenience (in-home shopping and delivery) and specialized service to consumers, including demonstrations and detailed product explanations.

3. METHODOLOGY

To meet the aim of this work, we chose the company NATURA Cosméticos S.A. as a case study because it is considered a notable example of a Brazilian company that has chosen in its internationalization strategy to enter a market with a large psychic distance using a totally different distribution channel than its traditional direct selling, which has been successful for it in the Brazilian market for over 30 years. This permits analyzing the alignment between distribution channel and internationalization strategy based on the study of a single Brazilian company that has adopted different distribution channels in countries with distinct cultures.

3.1 Type of study

This article takes a qualitative approach, with an exploratory/descriptive character, relying on bibliographical research. According to Cooper & Schindler (2003), the exploratory objective is the first step in all scientific work and normally consists of a preliminary or preparatory study for another type of research. This type of study has the goal, especially when it entails bibliographical research, of obtaining more information on a given topic, to facilitate mapping out a theme for more detailed study, defining the objectives or formulating hypotheses for testing, or also discovering another focus for an intended study (RICHARDSON, 1999; SELLTIZ et. al., 1965).

Most exploratory studies involve a review of the literature and more careful analysis of some examples that stimulate comprehension of a subject, by evaluating the possibility of developing a novel and interesting study of a determined theme. In short, this type of study seeks to provide more familiarity with the problem, to make it more explicit (COLLIS; HUSSEY, 2005).

According to Gil (1999), although the planning of an exploratory study is quite flexible, it nearly always assumes the form of a bibliographical survey or case study. This paper has elements of both, because although it is mainly a bibliographical study, it is focused on the information available about a specific firm, NATURA.

In general, descriptive research aims to observe, record, analyze, classify and interpret facts or phenomena. Further according to Gil (1999), descriptive studies can go beyond simple identification of the existence of relations between variables, and can seek to determine the nature of this relationship. In such cases, although defined as descriptive based on their objectives, they wind up serving more to provide a different view of the problem, approximating them to exploratory studies.

3.2 Procedures for gathering and analyzing the data

We gathered secondary information on the internationalization process of NATURA, both in the Latin American and European markets, from newspapers, magazines, books, trade publications, academic articles, monographs, theses, the company’s website, reports to shareholders and advertising material, among other documents. Besides the firm’s website, we accessed electronic periodicals, university libraries and the websites of associations linked to the cosmetics, distribution and retailing segments.

We used content analysis as the strategy to evaluate the various data found, following the steps and procedures defined by Bardin (2008). According to him, content analysis is performed in three phases: pre-analysis, exploration of the material and treatment of the results by means of inference and interpretation.

4. PRESENTATION OF THE RESULTS AND CRITICAL ANALYSIS

NATURA is a Brazilian company with national capital founded 40 years ago. It has a leading position in the country's market for cosmetics and personal hygiene products. It is also the largest cosmetics firm in South America, with consolidated annual sales revenue of R$ 3.9 billion and a 22.8% share of the Brazilian market in 2006 (NATURA, 2007b).

NATURA traces its origins to a small shop and laboratory opened in 1969 in the city of São Paulo. In 1974 the company decided to operate through direct sales, supported by resellers called "NATURA Consultants". This strategy proved successful and gave it a solid base for expansion (ALMEIDA, 2006). In the 1980s it grew significantly through regional expansion and product diversification. Then in the 1990s NATURA publicly assumed a commitment to social and environmental responsibility and started its international expansion. In 2000, the company went further, adopting policies for sustainable utilization of Brazil's biodiversity, and aligned with this philosophy, launched the Ekos line of products. Natural floated its capital in 2004, with shares traded on the São Paulo Stock Exchange (BOVESPA) (NATURA, 2007c).

According to Toledo et al. (2005), the "NATURA Consultants" are the company's strong point or heart. Their number has shown strong growth, in 2006 reaching 617 thousand in Brazil, Argentina, Chile and Peru (NATURA, 2007b).

NATURA competes against the main makers of cosmetics in Brazil and the world. NATURA's main competitor in door-to-door cosmetics sales is Avon, which operates on a large scale in Brazil and the rest of Latin America. Its other main rivals in the sector are O Boticário, Beiersdorf AG (maker of Nívea, among others), L'Oréal, Unilever, Monange, Colgate-Palmolive and Johnson & Johnson (ALMEIDA, 2006).

NATURA, along with the other large companies in the sector, needs to invest in R&D to remain competitive. For example, in 2006, the company invested R$ 87.8 million in innovation and launched 225 new products (NATURA, 2007b).

4.1 Description of NATURA's internationalization process

NATURA's internationalization process started in 1983 in Chile. At the start, the company had difficulties because of the lack of a business model that could be adopted internationally (GOMES, 2006). The initiative began with some former managers of NATURA, who started distributing its products imported from Brazil (MINTZBERG et al., 2006). To overcome the problems faced in the first internationalization attempt, NATURA redefined its organizational processes and only made new attempts in 1992 and 1993, with operations in Argentina and Peru, respectively, reproducing the Brazilian direct sales model. Although research had shown that direct sales would be promising in the region, the lack of integration between the countries' cultures and values and those of NATURA hampered these initiatives (GOMES, 2006).

Various errors were committed in this second attempt: a former Avon manager was hired to lead the office in Argentina, without any previous knowledge of NATURA; the company's focus was still on the Brazilian market, which was expanding substantially; and the sales structure copied from Brazil was not properly implemented (MINTZBERG et al., 2006).

NATURA decided, after three decades in existence, to undertake a comprehensive reorganization to facilitate growth in the Brazilian and international markets. Since 1999, the company had been using a strategy of sending employees from Brazil to convey its business model and institutional vision to the subsidiary operations abroad, besides integrating this model and vision in the local culture (GOMEs, 2006).

Since the start of its internationalization efforts, NATURA has had a strategy of using its own resources to enter other countries. NATURA does not rule out the possibility of international acquisitions, but alliances are discarded, at least in the short and medium terms. On the other hand, Garcia (2005) suggested that the difficulties faced by NATURA in the international market derived from the absence of sizable commercial assets in the target external markets. This problem could be overcome by entering into partnership agreements with local firms or by a merger or acquisition, to permit the use established brands and sales channels.

Mazzola (2005) stated that the results obtained by NATURA in neighboring countries were insignificant, since they represented under 3% of its overall volume of business. According to him, these poor results were due to the excessive use of Brazilian expatriates instead of local people, the low credibility of Brazilians among local customers and the saturation of the direct sales model, because most potential sellers of NATURA already worked with competing companies, such as Avon. According to Mazzola (2005), "the Latin American experience, despite the insufficient results, was an important learning experience." Gomes (2006) identified that NATURA surveyed the European market and discovered that consumers in some countries valued the question of sustainable use of natural resources, and by extension looked favorably on companies with high social and environmental responsibility. However, for cultural questions the possibility of door-to-door sales did not appeal to the consumers surveyed. The main question raised by European consumers was Brazil's lack of tradition in the cosmetics area and the inability of a Brazilian company to guarantee compliance with its commitments.

The Ekos line, chosen for entry in the European market, was perceived as an upscale product, which would be better accepted if distributed selectively in large department stores and chic boutiques (Natura, 2007a). In 2005, Natura decided to open a store in Paris, which according to surveys was the European city where consumers most identified with the company's products, Brazilian biodiversity and the sustainable development philosophy. Because the market there is one of the world's most competitive, this would be an excellent test for the company to assess the possibility of expanding to other European locations (Gomes, 2006).

The idea behind the store, which was named Casa NATURA, is to promote Brazilian culture along with selling the Ekos line of products (derived from raw materials from Brazilian biodiversity). While customers are learning about the products, they can drink Brazilian espresso coffee and fruit juices, read magazines and books about Brazil and listen to Brazilian music (NATURA, 2007a). The aim of entering the French market differed from that in Latin America: "More than just selling products and increasing revenues, the intention is to strengthen the brand and make it known to some of the world's most demanding consumers" (Spotorno, 2006). Besides this, the idea is to differentiate NATURA from the stereotyped beauty standards and play up the concept of biodiversity and sustainable development (D'AMBROSIO, 2005). Another objective of opening the Paris store is to evaluate whether personalized stores will be the best model to expand the brand in Europe, given that the company has discarded the idea of selling the products through regular retailers. One year after entering France, NATURA had come to the conclusion that countries in Eastern Europe would be open to direct sales, while the own-store format would be best in Western Europe. The company was even thinking of opening a second store in Paris (GOMES, 2006).

At the end of 2005, continuing with its internationalization process, NATURA started operations in Mexico, where the company studied the creation of a store like the one in Paris. According to Gomes (2006), "it can be inferred that in Mexico, the direct sales model was not very successful." The objective of the store in Mexico was to have a setting to present the company's beliefs and values to resellers and consumers. The plans for the Mexican market are still ambitious, since the country has the second-largest cosmetics market in Latin

America (behind Brazil) and the third-largest direct sales market (after the U.S. and Japan). NATURA is developing some specific products because Mexican consumers like stronger, sweeter and fruitier fragrances, unlike consumers in Latin American countries with hotter climates such as Brazil, who prefer softer and more floral essences (Gomes, 2006). The company is making these adaptations because it believes it needs to adapt to the culture of the countries where it is entering, to assure customer loyalty.

In 2006, NATURA started tests of the direct sales model in Paris, and also set up its first research laboratory outside Brazil there (NATURA, 2007b). The company's next international steps were taken in 2007, with the start of operations in Venezuela and Colombia. The objective is to consolidate the company's position in the countries that consume 80% of the cosmetics, perfumery and personal hygiene products in Latin America. In Brazil, the brand has achieved a market share higher than 20%, but in Latin America as a whole, this figure is only 0.3% (SPOTORNO, 2006). The company also announced it intends to enter the American and Russian markets (NATURA, 2007b), while expecting to reach breakeven soon in the countries where it is in the consolidation phase (Argentina, Chile and Peru). Spotorno (2006) stressed that the company's products continue to be produced in Brazil, in the municipality of Cajamar, São Paulo, and to meet demand in the external markets they are exported to the other operating units.

4.2 Analysis of the results

In this section we analyze the internationalization process of NATURA in light of the theoretical framework and focusing on the objectives of this study.

The reasons leading NATURA to expand internationally are different in the Latin American and French markets. In Latin America, the intention is to expand the firm's market by reaching consumers in countries that together represent over 80% of cosmetic and personal hygiene product consumption in the region. As pointed out by Garcia (2005) and Urban (2006), NATURA took advantage of its competencies and highly developed technical-production capacities to win new markets in neighboring countries.

On the other hand, in France the reason for international expansion is to strengthen the NATURA brand by submitting it to consumers who are among the most demanding in the world. To materialize this "test", the company decided to focus on the Ekos product line, because it carries an innovative philosophy of sustainable use of Brazilian biodiversity. Finally, the firm wants to evaluate whether a distribution channel other than direct sales can be replicated in future expansion in the European market.

These motives are in line with the findings of the study by FDC (2002), which indicated “development of competencies to compete in international markets” as the second leading reason reported by Brazilian companies for expanding abroad. The internationalization strategy adopted by NATURA, according to the definitions of Goshal (1987) and Yip (1989), is multidomestic, since the company has not yet attained a significant share of the main global markets, and the offer of its products is being personalized according to the regional characteristics of each market. As an example, as mentioned, in the Mexican market consumers want stronger, sweeter and fruitier fragrances. Another aspect that confirms the multidomestic strategy is that the marketing decisions are distinct in each country, such as the personalization of the store to launch the brand in Paris.

Analysis of NATURA’s strategy by the behavioral approach of the traditional Uppsala school of thought shows that the concept of psychic distance applies, since the company started its internationalization process in countries similar to Brazil, with smaller differences in culture, language and government structures. This was the case of the South American countries (Argentina, Peru and Chile) where NATURA first expanded.

On the other hand, the NATURA case partly contradicts the idea of a gradual and sequential behavior defined by the precursors of the Uppsala school. Instead of starting its internationalization through direct or indirect exports, relying on local marketing partners or independent distributors, it opted to invest directly to create its own sales and distribution structures (structures for coordination and control of direct selling or personalized store structure). As reported in this work, NATURA preferred to assume the risk of entering the international market on its own, without the help of a strategic partner.

However, analyzed from another angle, based on the basic internationalization mechanism of Johanson and Vahlne (1977), the process was gradual, since the company tried to obtain local-market knowledge in just a few South American countries before expanding to all Latin America. And in the European case, it decided to start with a single store in Paris, to learn to serve demanding customers before expanding to the rest of Europe. Analyzing NATURA’s entry modes according to the classification of Buckley and Casson (1998) shows it opted for direct investment in distribution channels, by which the company makes its products in its domestic market (Brazil) and exports them to foreign ones, where they are distributed and sold through its own structure. With respect to the stages of the internationalization process defined by Andersen (1993), NATURA Started and still is at the third stage, because it established subsidiaries in both Latin America and Europe to manage sales activities and distribution logistics.

The choice of distribution channels also followed distinct strategies in Latin America and France. In Latin America the company decided to replicate the Brazilian model of door-to-door sales, trusting in the philosophy of forging closer relationships with customers through the "NATURA Consultants" and the over 25 years of success of this model in Brazil. In contrast, in France the company took a different approach, based on the results of market surveys indicating possible rejection of direct selling.

The company instead decided for exclusive distribution through its own boutique, to differentiate its products based on three pillars: active ingredients from Brazilian biodiversity, environmental and social sustainability and appeal of popular traditions. Only after good exposure of the NATURA brand in France did the company start tests with the direct sales model. However, the results of these tests have not yet been disclosed. Chart 1 summarizes the main conclusions in relation to the objectives of this study:

Factors Analyzed	Latin America	Europe
Determinants of the internationalization effort	• To gain new markets • To take advantage of competencies	• To strengthen the Natura brand • To learn from a demanding international market • To test the best distribution channel for the European market
Characteristics of the internationalization process	• Multidomestic •Started in a place with smaller psychic distance • Non-gradual process	• Multidomestic • Non-gradual process
Entry mode in the international market	• International direct investment in distribution •Exportation and own distribution structure	• International direct investment in distribution • International direct investment in distribution
International distribution channels	• Direct sales	• Personalized store

CHART 1: SUMMARY OF THE MAIN CONCLUSIONS
Fonte: Elaborate by the authors.

NATURA's distribution channel choices follow the definitions of Stern et al. (1996), who advocate alignment with the product/market strategy. In Latin America, NATURA follows the winning formula in the Brazilian market, due mainly to the market similarities, while in the French market it decided on a channel to allow selling the values defined by the company for this market. The other option would have been to work with a local partner to distribute and sell its products, and thus to reduce the risks of entering such a competitive market.

5. FINAL CONSIDERATIONS

The purpose of this study was to describe the internationalization process of a Brazilian company and the distribution channels chosen to operate in the foreign market, through a case study of NATURA Cosmetics S.A., which has so far expanded to other countries in Latin America and Europe and has further expansion plans for the United States and Russia. According to Ricupero and Barreto (2007) and FDC (2002), there are no specific determining factors that distinguish the reasons why Brazilian firms choose to test the international waters. In the case of NATURA we found that all the reasons reported in various sources lead to the same conclusion, namely that the general motives are: search for scale economies, development of competencies to operate in international markets, exploitation of location advantages and saturation of the home market.

From analyzing NATURA’s internationalization process, we can conclude that the market type (Latin America x Europe) influenced its strategies regarding distribution channel (direct sales in Latin American countries and physical store in Paris), but it did not alter the entry mode aspect, which in both cases was through direct investment in distribution through its own structure, without the use of local partners.

It is also important to consider that the reasons for internationalization are different in the two types of markets: in Latin America the aim is mainly to win new markets, while in Paris the main thrust is to strengthen the brand, learn from a demanding foreign market and test a new distribution channel.

NATURA has adopted the same type of strategic positioning both in Brazil and abroad, setting itself apart from rivals by using components from brazilian biodiversity, aligned with a marketing strategy focuses on social responsibility and development through the sustainable use of biodiversity.

The difference between the Latin American and European processes regarding the distribution channel strategy resulted from the cultural characteristics of the two markets: direct sales is generally frowned on by French consumers but accepted in Latin America. Another consideration in France was the need for a strong marketing effort to sell the quality image of a product line from Brazil.

The cultural differences of the two markets also required the company to develop new competencies to permit the international transition. In other words, to enter the French market

NATURA had to abandon its main competency of direct sales through "Consultants" and is now learning the new competency of sales through its own store.

An analysis from the economic approach according to Dunning (1988) shows that NATURA obtained an ownership advantage from the biodiversity question, by using raw materials derived from Amazonian plants and transforming the active ingredients obtained into cosmetic products accepted globally: unique fragrances and skin treatments, among others. This can also be considered a location advantage, because most of the Amazon Forest is located within Brazilian territory. The financial benefits so far have fallen far short of those in Brazil, because of the heavy outlays necessary to create its own structure, as opposed to granting licenses or forming alliances with local partners.

We can also conclude that the results of the internationalization strategies produced important feedback for the company's corporate strategy, since it reassessed the alternatives of concentrating in the home market or intensifying its international expansion. Although the results have not yet been significant, the company is sticking to its strategy of further expansion in Latin America and is also evaluating other steps in the European market.

The internationalization process of NATURA also shows strong characteristics of the Uppsala school model, such as the initial search for nearby markets, starting the process through exports and outsourced operations, a gradual process of learning about the new market and centralized decisions by the parent company.

However, the evidence found contradicts the idea of Vernon (1966), according to which a company will only branch out internationally after exhausting all opportunities in relation to a product in its home market, seeking to exploit the same product's advantages in more backward foreign markets. This is certainly not the case of opening a store in Paris, the global "Mecca" of cosmetics, to sell the Ekos brand, a sophisticated line of products with the appeal of Brazilian biodiversity and values appreciated in Europe, such as natural ingredients from sustainable sources, along with development of new technology.

5.1 Limitations and contributions

Despite the inherent limitations of this study because of its focus on a single company and reliance on secondary sources, it contributes to a better understanding of the factors that affect firms' choices of distribution chan nels when branching out abroad, and shows that the NATURA case confirms the majority of theoretical assumptions presented in the literature.

5.2 Recommendations for future research

As any exploratory study, this paper should be seen as only a first step or a preliminary study preparatory for future investigation. We found evidence that cultural aspects can alter well-established operational strategies of companies that intend to enter foreign markets.

A study of multiple cases of other multinational cosmetics firms, comparing their internationalization strategies, entry modes and distribution channels chosen, would certainly be valuable to expand knowledge of the operational changes faced by Brazilian companies in foreign markets due to factors related local cultural habits.

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