International expansion of Marcopolo (B): Manufacturing in “the other side of the world”

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A B S T R A C T

The case describes the internationalization process of emerging markets multinational enterprises in other emerging markets. Marcopolo, the largest manufacturer of bus bodies in Brazil and one of the largest in the world, started several joint ventures to manufacture bus bodies. After years of consistent headway in a globalization strategy, including several success stories, the company was facing hard times along several fronts. The case specifically examines the experiences in Russia, India, and Egypt, their inception, and the subsequent events until the beginning of 2011. The case can be used in conjunction with case (A) International Expansion of Marcopolo (A): Adventures in China—or separately.

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1. Introduction

At the beginning of 2011, top management at Marcopolo, the largest manufacturer of bus bodies in Brazil and one of the largest in the world, was reviewing the status of its international operations. After years of consistent headway in a globalization strategy, including several success stories, the company faces hard times along several fronts. The Portuguese plant, its first abroad, was closed in 2009, after almost 20 years in operation. In that same year the company pulled out of the joint venture with the GAZ Group (formerly RusPromAuto) in Russia, closing the two plants it operated there. This decision represented a significant setback, since Russia was one of the most attractive markets for buses and had been one of the most important bets in Marcopolo’s recent internationalization efforts. The situation in the Mexican joint venture had also been difficult since 2009, due to the global economic crisis. Political developments in Egypt, where the company operated under an association with a local company, had brought production to a halt, and prospects were unclear. Management faced the question of what should be the next move in their internationalization efforts and how to cope with the uncertainties posed by the expanding geographical scope of their operations.

2. The bus body industry in Brazil and worldwide

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

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

Two types of companies operate in the international bus body industry: integrated producers, which manufacture bodies, chassis, and engines, and body producers, which manufacture the body to be later assembled on a chassis and engine set. In general, the customer supplies the chassis and the engine on which the body is to be assembled; however, in some cases, the integrated producer manufactures the chassis and the engine and uses the body of a third party in order to assemble the final product. Exports of bus bodies can take several forms: CBU (Completely Built Up), when the final bus product is completely assembled; PKD (Partially Knocked Down), when only the bus body is completely assembled; MKD (Medium Knocked Down), when the bus body is shipped in modules; and CKD (Completely

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Knocked Down), when the bus body is totally taken apart and shipped in kits to a local partner. Fig. 2 shows the evolution of bus production in selected countries in the period 2000–2010; Fig. 3 presents data on global production of selected bus manufacturers.

3. Company background

Renamed Marcopolo in 1971 after a very successful and innovative bus model, the company had been founded as Nicola & Co. in 1949 in Caxias do Sul, an industrial city in the Rio Grande do Sul state, located in the south of Brazil. The company started out with eight partners and just fifteen employees. Pedro Paulo Bellini, who was to become the main shareholder and leader, joined them in 1950. In 1953, the company pioneered in Brazil the production of steel structures for bus bodies, reducing their weight and manufacturing lead time. The company grew rapidly, and by the beginning of the 1960s it was producing 240 bus bodies per year. Around the same time the company signed to its first export contract. Output doubled by the end of the decade thanks to advances in production processes. By the beginning of the 1970s, Marcopolo began to export completely knocked down (CKD) bus bodies to Venezuela, in an agreement that also involved the transfer of technology.

Marcopolo went public in 1978. In 1981, the company inaugurated a second and larger plant in order to concentrate all bus assembly activities in one site. By that time exports were already worth some 39 million USD; however, during the following decade Brazil’s economic crisis hit the company hard, compelling the firm to cut back on bus production. During this period, the company was one of the pioneers in Brazil in the adoption of Japanese production practices, and as a result benefitted from significant productivity and quality improvements that allowed it to grow consistently over the next 20 years. Partly due to growth in the domestic market, this expansion was also driven by internationalization efforts to promote exports and foreign production.

By 2010, Marcopolo produced buses in all segments of the industry, bus bodies and components in 11 plants worldwide—four plants in Brazil (three wholly-owned and a 45% stake in another Caxias do Sul manufacturer); a wholly-owned plant in South Africa; and plants in joint venture with third parties in Argentina, Colombia, Mexico, Egypt, and India. The company also held interests in three component manufacturers in Brazil. Foreign operations accounted for 32.5% of total units sold and 31.5% of units produced in 2010. Fig. 4 shows the evolution of Marcopolo’s production in Brazil; Fig. 5 shows the distribution of units sold and production in 2009 and 2010 in Brazil and abroad.

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

4. Marcopolo’s internationalization from 2005 through 2010

Years earlier, Marcopolo’s top management team had planned to use the company’s production facilities in Brazil as “a giant hub for components and parts manufacturing” to be sent to the several plants the

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

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

Fig. 1. Exports of bus body units from Brazil by year and manufacturer (2000–2010); n.a. = not available.
Source: FABUS (includes exports by the manufacturer and by the assembler).

**Total Unit Production of Buses—Selected Countries (2000–2010)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Russia</th>
<th>Egypt</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>22,672</td>
<td>i.</td>
<td>28,696</td>
<td>13,696</td>
<td>2,181</td>
<td>31,787</td>
</tr>
<tr>
<td>2001</td>
<td>23,373</td>
<td>59,665</td>
<td>23,075</td>
<td>16,663</td>
<td>1,856</td>
<td>23,728</td>
</tr>
<tr>
<td>2002</td>
<td>22,826</td>
<td>i.</td>
<td>n.a.</td>
<td>15,829</td>
<td>3,052</td>
<td>22,897</td>
</tr>
<tr>
<td>2003</td>
<td>26,990</td>
<td>66,700</td>
<td>n.a.</td>
<td>17,224</td>
<td>2,367</td>
<td>27,943</td>
</tr>
<tr>
<td>2004</td>
<td>28,785</td>
<td>78,712</td>
<td>n.a.</td>
<td>18,928</td>
<td>2,780</td>
<td>29,033</td>
</tr>
<tr>
<td>2005</td>
<td>35,387</td>
<td>i.</td>
<td>30,347</td>
<td>21,348</td>
<td>2,828</td>
<td>34,259</td>
</tr>
<tr>
<td>2006</td>
<td>33,809</td>
<td>i.</td>
<td>i.</td>
<td>24,115</td>
<td>5,633</td>
<td>31,846</td>
</tr>
<tr>
<td>2007</td>
<td>39,087</td>
<td>i.</td>
<td>44,420</td>
<td>25,604</td>
<td>3,154</td>
<td>28,419</td>
</tr>
<tr>
<td>2008</td>
<td>44,111</td>
<td>119,888</td>
<td>44,101</td>
<td>25,872</td>
<td>4,362</td>
<td>21,400</td>
</tr>
<tr>
<td>2009</td>
<td>34,535</td>
<td>129,210</td>
<td>42,002</td>
<td>10,809</td>
<td>4,154</td>
<td>12,300</td>
</tr>
<tr>
<td>2010</td>
<td>45,869</td>
<td>161,603</td>
<td>54,609</td>
<td>13,283</td>
<td>n.a.</td>
<td>19,451</td>
</tr>
</tbody>
</table>

Fig. 2. Total unit production of buses—selected countries (2000–2010).
Source: OICA; n.a. = not available; i. = inconsistencies.
As a result of these developments, Marcopolo reversed its strategy, increased local content in its several foreign operations, and adopted a global sourcing plan. Mr. Bisi explained the change as follows, “These two factors led Marcopolo to switch strategies, to look further afar in order to figure out ‘who’s going to supply us with kits?’ Brazil could no longer be the major supplier. Although we still have credit [in Brazil], we lack a competitive cost base.”

In order to choose the target foreign markets for direct investment, the company relied basically on two types of information. First, studies took into account factors such as intensity of export activity to those markets; export costs in comparison with a local operation; geographical distance; affinity in terms of language and culture; availability of raw materials and components; strategic positioning in relation to other potential markets; local government policies; existence and nature of local competitors; and availability of potential suppliers. Overall, the company favored investments in emerging markets, where buses were considered to be a feasible alternative for mass transportation of low-income populations.

Second, the company collected firsthand information by organizing visits of executive teams, including top executives and the CEO himself, to every target market the firm planned to enter.

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

By 2007, India was the second largest producer of buses globally, followed by Russia and Brazil. According to Marcopolo’s vice president at the time, José Martins, both India and Russia had a high demand for buses but a low level of technological development to produce bus bodies. He explained it as follows, “Today we have 6.5% of the world market. With the expansion to India and Russia, we want to achieve around a 14.5 to 15.5% share. That’s equivalent to almost 50,000 buses per year. This leaves us in an exceptional position when you compare us to a Chinese manufacturer, which produces only 11,000 to 12,000 units.”
Marcopolo’s management had been studying the Russian bus market since 2003. The Russian territory had 854,000 km of highways (ranking seventh worldwide) of which 80% were paved. Close to 50% of passenger transportation was by bus. Russia was among the five largest markets for buses worldwide, and the expectations were for a substantial growth in the years to come.

Two key factors influenced market growth: the obsolescence of the bus fleet and the expansion of private bus transportation companies. In fact, transportation by bus in the Russian Federation had deteriorated during the 1990s and first half of the 2000s. According to the GAZ Group 2006 Annual Report, the situation had become dire. The previous decade had seen a reduction of around 47,000 units in the fleets of public transportation companies, and only 80,000 units were still running. Of the latter, around 60% were due for replacement and 45% were mechanically precarious and a threat to user safety. Public transportation companies would require some 12,000 to 14,000 new units per year just to cover replacement. Meanwhile, private transportation firms were increasing their fleets in order to provide better service. At the same time, there was a trend towards the adoption of full-sized buses rather than minibuses.

The Russian bus market comprised five segments: large and extra-large buses; medium buses; small buses; city buses; and intercity and tourism buses. Minibuses represented around 70% and intercity buses around 22% of the Russian production. Fig. 7 shows a breakdown of Russian production by bus type in 2006.

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

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

The GAZ Group Bus Division was the leading manufacturer of buses in Russia and the Commonwealth of Independent States (CIS), and one of the top ten in the world. In 2004, GAZ Group’s market share was 89% in the small bus segment; 75% in the medium bus segment; 44% in the large and extra-large segment; and 6.5% in the tourism segment. The Russian market accounted for almost 80% of the sales of the GAZ Group Bus Division. Ukraine and Kazakhstan were the two main export markets among the CIS countries. Fig. 10 presents information on the Bus Division production in 2005 and 2006.

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

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

Marcopolo’s management had no intention of entering the Russian market in a sole venture or by a licensing agreement. They considered that only a joint venture made sense due to the specificities of the market, Marcopolo’s lack of market knowledge, the need to have government connections, and the leading position of one major competitor.

### Marcopolo’s Share (%) in Brazilian Production (2006 – 2010)

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

Fig. 6. Marcopolo’s Share (%) in Brazilian production (2006–2010); (*) does not include the production of the Volare model.
Fortunately, the GAZ Group was interested in partnering with Marcopolo and a joint venture agreement was signed in May, 2006. José Martins, at the time Marcopolo’s Vice-president, described the Russian venture in 2007 as follows:

In Russia, we did a joint venture with Oleg Deripaska, a leading Russian businessman and owner of the GAZ Group. This group dominates the mass transportation vehicle production in Russia. It’s an empire, a huge business—and they’re our partner in Russia.

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

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

In parallel, we did a joint venture with Technoart to manufacture plastic components. Marcopolo is the owner of plastic components manufacturer MVC and has the most advanced plastics technology in Brazil. In fact, we make the panels and the cockpit for Embraer aircrafts. Because Russia has a great demand in this area, we set up a separate company, a joint venture in the city of Vladimir. These plastic parts are sold to GolAZ, to PAZ and to GAZ. The parts include doors, ceilings—everything. This company alone has sales of seven million USD, and it’s just getting started. They are going to have sales of 50 million USD with their hands tied behind their back.

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

Real, a bus model built on a Hyundai chassis, was the first product to come out of the joint venture. Production started in November, 2007, with sales following shortly thereafter, in January, 2008. The joint venture also announced two new products, the intercity/tourism models Andare-850 and Andare-1000. In addition, one of the major investments in 2007 was the first stage of production of a small bus, the PAZ-Marcopolo. In 2008 the joint venture had planned to increase capacity in order to produce 5,000 units per year of this model. GAZ Group considered all of these projects strategic for strengthening its market position and competing more effectively against RZGA and the Chinese firms. In September, 2008, the Real bus line received the “Best Bus of the Year” award at the International Transportation Forum in Moscow.

Nevertheless, Marcopolo’s management believed in additional opportunities for collaboration between the two parties. By then, Paulo Bellini had become president of the board, José Rubens De La Rosa was the new CEO, and José Martins, the former vice president, had retired. De La Rosa indicated in an interview to a Brazilian newspaper (Arruda, 2008a) that the joint venture was restricted to certain segments—mainly tourism and interstate—and excluded city buses. But it was exactly the latter segment that Chinese manufacturers had an eye on, because of the old-fashioned design and features of the models sold by GAZ Bus Division. De la Rosa (Arruda, 2008a, p. 6) declared, “Russia has huge potential… The cost of living in the capital has gone up tremendously, and millionaires are buying luxury goods. Outside Moscow, however, there is another, simpler world, with needs and space for Marcopolo to grow. Our proposal is for them to reassess what was agreed and to enter the market in a larger way.”

Despite excellent results in 2006 and 2007, the 2008 global crisis brought enormous difficulties to Russia and its motor vehicle industry. This excerpt from the 2008 GAZ Group Annual Report (p. 3) expresses how hard the crisis had hit Russia:

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

The bus industry was especially hit, with a decrease of 38% in volume (units) and 25% in value in 2008. The new entrant, RZGA, and the
Chinese exporters experienced the largest decrease in sales. Imports fell 51% in the small bus segment and 59% in the medium-class segment. In fact, Chinese exports in the latter category dropped 75%. The city bus segment suffered a 40% contraction, and the sales of Chinese-made buses fell 91%. The least affected segments were the extra-large and the inter-city and tourism bus segments. The latter segment lost only 11%, and while GAZ Group revenues and production fell, its market share increased to the detriment of domestic and foreign competitors.

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

During 2009, the situation further deteriorated, with an overall reduction of 42% in unit volume (39% for small buses; 36% for medium and large buses; 42% for extra-large buses; and 68% for inter-city and tourism buses) and of 40% in value. Imports from China and Ukraine fell 80% compared to 2008. Fig. 1 shows the evolution of the Russian market and of bus production of the GAZ Group. Fig. 12 presents the GAZ Group motor vehicle production in 2009.

At the same time as the Russian bus market decreased to approximately one third of its former size, the GAZ Group was experiencing a severe crisis. Other firms owned by Mr. Oleg Deripaska were also in financial distress, to the point where many believed he would be unable to hold onto his business empire. He dropped from the 9th position in the Forbes ranking of billionaires to the 159th. Other competitors in the market also suffered as well under these turbulent market conditions, such as the Kamaz Group.

As a result, on December 17, 2009, Marcopolo announced the termination of the joint venture in its 2009 Annual Report: “Marcopolo has ended its association with Ruspromauto, in Russia (currently GAZ Group) with its share of assets being transferred to a newly owned subsidiary.”

Although the firm ceased to operate in Russia and its joint venture with the GAZ Group ended, management still considered the Russian market to be very attractive and that it made sense to view other alternatives to serve it. One possibility was to export bus bodies from China, because of the existing special commercial agreements. Another possibility was to use the Indian operation, a joint venture with Tata Motors, as an export platform to reach the Russian market. In addition, a reentry into Russia with a different partner was not excluded from Marcopolo’s management considerations.

6. The Indian joint venture

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

India was the second most populous country in the world and seventh in terms of territory. Despite a large proportion of the population (42%, according to 2005 World Bank estimates) living below poverty line, the economy was growing rapidly (an average of 6% GDP growth between 1992 and 2002, and more than 8% between 2003 and 2006). Nevertheless, the transportation infrastructure remained a major barrier to economic growth. A special report on India by The Economist (2008) highlights the situation of the country’s roads, India’s 3.3 m km road network is the world’s second-biggest, but most of it is pitiful. Its prize national highways...account for only 2 percent of the total, and only 12 percent of them, or 8,000 km, are dual carriage ways. India’s urban roads are choked... The government has given unprecedented attention to India’s infrastructure deficit, with some decent results. Following in its predecessor’s footsteps... it has pushed public-private partnerships (PPP) for building roads and airports... The government has also launched a plan to build a 1,500 km road and rail network, linking Delhi to Mumbai... But this is still nowhere near enough.

Another major problem was the deterioration of bus fleets. Depending on the city, bus penetration could vary from 0.6 to six buses per thousand inhabitants (Motor India, 2009a). The Indian government, as well as the private sector, was aware of these problems. In fact, bus production capacity in India had nearly doubled from 1999 to 2007 and the central government had made available extra funds to replace old buses. In 2005, the Indian government launched the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) program to provide support to local governments for fleet replacement during a seven-year period (2005 to 2011).

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

Fig. 9. GAZ Group—production of vehicles by division (2006); (*) varies according to the segment. Source: GAZ Group 2006 Annual Report.

Fig. 10. GAZ Group—unit production of buses by make and type (2005–2006). Source: GAZ Group (heavy and light buses).

GAZ Group—Production of Vehicles by Division (2006)

<table>
<thead>
<tr>
<th>Division</th>
<th>Share in Group Sales</th>
<th>Market share (estimates) - Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Light duty trucks</td>
<td>34%</td>
<td>40%</td>
</tr>
<tr>
<td>- Minibuses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Medium duty trucks</td>
<td>6%</td>
<td>58%</td>
</tr>
<tr>
<td>Cars</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Trucks</td>
<td>8%</td>
<td>57%</td>
</tr>
<tr>
<td>Buses</td>
<td>13%</td>
<td>68%</td>
</tr>
<tr>
<td>Powertrain</td>
<td>9%</td>
<td>54%</td>
</tr>
<tr>
<td>Road construction equipment</td>
<td>5%</td>
<td>between 50% and 64%(*)</td>
</tr>
</tbody>
</table>
Marcopolo's management saw an opportunity where others might see a threat. Because of its Brazilian experience, the firm had developed unique capabilities to build bus bodies capable of withstanding bad road conditions. However, because it lacked connections in India and had limited market knowledge, the company actively searched for a local partner.

The best potential partner was Tata Motors, a member of the mighty Tata Group, originally founded in India in 1868. In the 1980s, the Group operated in a larger number of industries and its administration was decentralized in the hands of a group of professional managers that reported directly to the Tata patriarch. In the 1990s, in response to the Indian government's economic liberalization policies, the Tata Group underwent several changes, including restructuring and selling or closing plants in highly competitive industries. By 2002, the Tata Group was concentrated in seven industries: steel, motor vehicles, electricity, chemicals, telecommunications and information technology, financial services, and consumer goods. By 2006, Tata Motors had a 48% share of Indian bus production (see Fig. 13).

Negotiations with the Tata Group were initiated. The deal seemed interesting for both parties, since Tata Motors manufactured only a share of Indian bus production (see Fig. 13).

The Tata Group currently has annual sales of between 29 and 30 billion USD. It is a huge group. They are an icon in India. Tata does not make buses: they make just the chassis. Compared to Brazilians, Indians are very slow in making decisions; but when they do, they’re serious. It took me three years to convince Mr. Tata. He already had the chassis. So why not make the body to put on top of the chassis? He resisted, arguing that there were many local manufacturers and that he would ruin them. “Let’s do this: let’s license these local manufacturers. We’ll choose the best six or seven. You sell them the chassis.”

They use our technology. Our Indian factory sells them the parts. They assemble the bus and deliver it to us. Then we sell it.” Mr. Ratan Tata, Chairman of the Group, expressed his hopes for the joint venture (Motor India, 2009b), “The rapidly expanding and improving road network, connecting cities and also rural areas, is expected to substantially grow passenger transport. The joint venture with Marcopolo, which is one of the largest bus body builders, will enable Tata Motors to successfully address the growing demand in India, as well as relevant markets abroad.”

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

TMML intended to exploit several opportunities in the Indian market. One was to serve city and state governments in their efforts to replace unsafe and obsolete bus fleets all over India. Besides the national program to support and subsidize local governments, the Bus Rapid Transit System (BRTS) was implemented in large Indian cities. The joint venture planned to produce a variety of models, including low-floor city buses, 16 to 54-

<table>
<thead>
<tr>
<th>Country</th>
<th>Make</th>
<th>Cars</th>
<th>LCV</th>
<th>HCV</th>
<th>Heavy Bus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>AZ</td>
<td>2,161</td>
<td>44,777</td>
<td>6,554</td>
<td>127</td>
<td>53,372</td>
</tr>
<tr>
<td></td>
<td>GAZ</td>
<td></td>
<td>44,777</td>
<td>6,434</td>
<td>127</td>
<td>53,372</td>
</tr>
<tr>
<td></td>
<td>GOLAZ</td>
<td></td>
<td>634</td>
<td>127</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td></td>
<td>KAVZ</td>
<td></td>
<td>533</td>
<td>533</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LIAZ</td>
<td></td>
<td>1,383</td>
<td>1,383</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MARKO</td>
<td></td>
<td>53</td>
<td>53</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PAZ</td>
<td></td>
<td>7,255</td>
<td>7,255</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Russia</td>
<td>2,261</td>
<td>44,777</td>
<td>12,988</td>
<td>9,626</td>
<td>69,552</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>LDV</td>
<td>39</td>
<td></td>
<td></td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,261</td>
<td>44,816</td>
<td>12,988</td>
<td>9,626</td>
<td>69,591</td>
<td></td>
</tr>
</tbody>
</table>

Fig. 11. Evolution of the Russian market for buses and the GAZ Group bus unit production (2002–2009).
Source: GAZ Group Annual Reports.

Fig. 12. GAZ Group—production by vehicle type and make (2009).
Source: OICA (based on survey with manufacturers).
seater standard buses, 18-seater and 45-seater luxury buses, and luxury coaches. Two new models were developed for the Indian market, a 28-seater microbus and the low-floor air-conditioned Starbus LE, specially designed to serve the Bus Rapid Transit System (BRTS) of New Delhi.

By the end of 2008, there was evidence that the Indian economy had remained relatively protected from the world crisis; it was the second fastest-growing major economy in the world, behind China. India was also the second largest bus manufacturer in the world, with an estimated 6% share of global production. The numbers varied somewhat according to the source and depending on whether vans and coaches for passenger transportation were included or not. As a result, estimates for total Indian production varied from 44,000 to 75,000 in 2008.

TTML became profitable in the fourth quarter of 2009, and increased production during 2010 (Figs. 14 and 15). According to Motor India (2008), the agreement had been extremely successful: “Tata Motors has done well in the bus segment and thanks to its association with Marcopolo, it is only getting better.”

Marcopolo’s management also felt the joint venture was performing satisfactorily. According to the vice-president at the time José Martins, TMML was “perhaps our most successful joint venture.” In addition, the joint venture in India played a key strategic role that could not be equaled by any other operation. Martins observed,

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

7. The Egyptian joint venture

Marcopolo was already serving part of the African market since 2000 by means of its South African subsidiary. However, this plant was unable to adequately supply the Northern part of Africa. As a result, by 2008 management started to consider setting up an operation in a second African country, but located in the North of the continent. The objective would be to serve also part of the European market, as well as the Middle East.

At the time, Egypt presented several advantages as a recipient of foreign direct investment. First, the country was situated in a strategic geographical position relative to Northern Africa, the Middle East, and most of Europe. Second, it was a modern Arab country with a stable and moderate political regime, led by President Hosni Mubarak, who had been reelected in 2005 to his fifth mandate. Third, the economy had been growing at a rate of six or 7% during the former three years (Fig. 16). Fourth, foreign direct investments were encouraged by automatic licenses and no requirements of local content. The Egyptian government guaranteed profit repatriation and imposed no price controls, except in the pharmaceutical industry. Several reforms were underway to strengthen the financial system. In addition, the country had signed the international treaties for the protection of industrial property and trademarks. As a result, in 2008 alone, Egypt was the recipient of 9.5 billion USD in foreign investments.

Egyptian exports were growing faster than its imports, thanks to several economic changes designed to liberalize foreign trade. Mr. Ruben Bisi, Chief International Operations Officer, was impressed with the opening of the country’s economy to foreign trade, “…Egypt has many free trade agreements with other countries. They have a free trade agreement with Nafta–Egypt exports with zero tariff to Nafta. A free trade agreement with Europe, a free trade agreement with the Gulf States, a free trade agreement with Africa.”

Buses were the most important means of passenger transporta-
tion, representing around 60% of total passenger flow. Although around 80% of Egyptian roads were paved, a large proportion was in poor condition. In major cities, subways were a preferred means of transportation.

In mid-2008 Marcopolo signed an agreement for a production joint venture with GB Auto S.A.E., a local manufacturer. The local partner also owned other businesses, with around 7,000 employees. The Egyptian entrepreneur was well connected to domestic political circles, and had access to the right people and information, both essential elements to be successful in a local business. The agreement established the move to a new plant in Suez, to start up by mid-2009. Total investment was 50 million USD over three years, and the forecast was to produce 1,500 units in 2009, reaching 5,000 units by 2014. The new venture, in which the Brazilian company held a 49% stake, produced both GB Auto and Marcopolo models. At the announcement of the agreement, Mr. Carlos Zignani, Director of Investor Relations, said, “Our partner has a plant in Cairo, but operations are being transferred to Suez. We will wait to start everything there” (Arruda, 2008b, p. 5).

The joint venture, named GB Polo Bus Manufacturing Group, had 900 employees and produced more than 400 units in 2009 and close to 700 in 2010.

<table>
<thead>
<tr>
<th>Country</th>
<th>Make</th>
<th>Cars</th>
<th>LCV</th>
<th>HCV</th>
<th>Heavy Bus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Tata</td>
<td>220,153</td>
<td>162,271</td>
<td>103,665</td>
<td>19,379</td>
<td>505,468</td>
</tr>
<tr>
<td>South Korea</td>
<td>Tata</td>
<td>8,131</td>
<td></td>
<td></td>
<td></td>
<td>8,131</td>
</tr>
<tr>
<td>UK</td>
<td>Jaguar</td>
<td>41,765</td>
<td></td>
<td>41,765</td>
<td></td>
<td>41,765</td>
</tr>
</tbody>
</table>

| Total         | 376,514| 172,487| 103,665| 19,379 | 672,045  |

Fig. 14. Tata Group—production by vehicle type and make (units) (2009).
Source: OICA.
There had already been concerns of social unrest in the country by the end of 2010, due to the growing level of unemployment (9% in 2010), high inflation rates (around 11–12% in 2009 and 2010), and a substantial decrease in exports (from 65 billion USD to 44 billion USD), all as a result of the global economic crisis. These conditions, combined with successful popular uprisings in other Arab countries (known as “the Arab Spring”), led to the deposition of Egyptian President Mubarak. The country was in a turmoil that affected GB Polo’s operations. In January 2011, the Brazilian press reported that Marcopolo had decided to bring back home three of its key local managers. Initially, the company had relocated other employees to a safer place near the plant, but then, according to Mr. Bisi, the local partner informed that it was impossible to ensure their safety, food or transportation. Therefore, Marcopolo’s management decided to bring home all the Brazilian employees and suspend local operations until the situation was under control.

Three weeks later GB Polo gradually restarted operations, even though the political and economic situation remained unclear. Deliveries of parts, components, and raw materials were still disrupted, but the plant had enough stock to restart operations (Bueno & Rocha, 2011). The situation looking forward was uncertain, and a slowing down of the economy was a probable outcome of the events in the country.

### 8. Other developments in the international front

The evolution of Marcopolo’s operations in international markets seemed to reflect the differences in local conditions (Fig. 17). Nevertheless, total production reached its peak in 2010. A brief review of developments by country is presented below.

#### 8.1. Argentina

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

#### 8.2. China

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

#### 8.3. Colombia

The Colombian operations were not affected by the global crisis. Like most South American countries, Colombia was growing and had a stable economy. The country also showed political stability and seemed to be quite successful in the fight against the drug lords, with U.S. support. In addition, Colombia had several bilateral economic agreements with developed countries, including the U.S. and the E.U.

#### 8.4. Mexico

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

#### 8.5. Portugal

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

#### 8.6. South Africa

Operations in South Africa were very successful during the end of 2009 and the first half of 2010 due to increased demand for high-end buses for the 2010 World Cup. In addition to manufacturing bus bodies in South Africa, Marcopolo also exported buses built on Scania chassis from Brazil, which were financed by the BNDES.
Evolution of Marcopolo’s Total Production of Bus Bodies by Country (units)

<table>
<thead>
<tr>
<th>Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>9,652</td>
<td>11,379</td>
<td>10,682</td>
<td>11,589</td>
<td>10,838</td>
<td>10,575</td>
<td>14,103</td>
<td>16,365</td>
<td>13,672</td>
<td>18,900</td>
</tr>
<tr>
<td>Mexico</td>
<td>1,423</td>
<td>1,964</td>
<td>1,687</td>
<td>2,102</td>
<td>3,200</td>
<td>2,896</td>
<td>2,595</td>
<td>3,214</td>
<td>3,510</td>
<td>1,255</td>
</tr>
<tr>
<td>Portugal</td>
<td>112</td>
<td>96</td>
<td>119</td>
<td>176</td>
<td>224</td>
<td>190</td>
<td>188</td>
<td>165</td>
<td>54</td>
<td>0</td>
</tr>
<tr>
<td>Argentina (33%)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>567</td>
<td>470</td>
<td>723</td>
</tr>
<tr>
<td>South Africa</td>
<td>120</td>
<td>204</td>
<td>399</td>
<td>406</td>
<td>300</td>
<td>314</td>
<td>485</td>
<td>560</td>
<td>308</td>
<td>416</td>
</tr>
<tr>
<td>Colombia (50%)</td>
<td>187</td>
<td>567</td>
<td>737</td>
<td>833</td>
<td>947</td>
<td>847</td>
<td>712</td>
<td>765</td>
<td>638</td>
<td>736</td>
</tr>
<tr>
<td>Russia (50%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India (49%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,517</td>
<td>5,216</td>
</tr>
<tr>
<td>Egypt (49%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>207</td>
</tr>
<tr>
<td></td>
<td>11,494</td>
<td>14,210</td>
<td>13,624</td>
<td>15,106</td>
<td>15,509</td>
<td>14,824</td>
<td>18,098</td>
<td>21,811</td>
<td>19,384</td>
<td>27,580</td>
</tr>
</tbody>
</table>

Fig. 17. Evolution of Marcopolo’s total production of bus bodies by country (units); only accounts for the percentage of the subsidiary’s production equivalent to Marcopolo’s share in the firm. Source: Marcopolo Annual Reports.

Hofstede’s National Culture Dimensions for Countries with Marcopolo Operations

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty Avoidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>49</td>
<td>46</td>
<td>56</td>
<td>86</td>
</tr>
<tr>
<td>Brazil</td>
<td>69</td>
<td>38</td>
<td>49</td>
<td>76</td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
<td>86</td>
<td>30</td>
</tr>
<tr>
<td>Colombia</td>
<td>67</td>
<td>13</td>
<td>64</td>
<td>80</td>
</tr>
<tr>
<td>India</td>
<td>77</td>
<td>48</td>
<td>56</td>
<td>40</td>
</tr>
<tr>
<td>Mexico</td>
<td>81</td>
<td>30</td>
<td>69</td>
<td>82</td>
</tr>
<tr>
<td>Portugal</td>
<td>63</td>
<td>27</td>
<td>31</td>
<td>104</td>
</tr>
<tr>
<td>Russia</td>
<td>93</td>
<td>39</td>
<td>36</td>
<td>95</td>
</tr>
<tr>
<td>South Africa</td>
<td>49</td>
<td>65</td>
<td>63</td>
<td>49</td>
</tr>
</tbody>
</table>

Fig. 18. Hofstede’s national culture dimensions for countries with Marcopolo operations. Note: power distance = the higher the score, the more individuals accept inequalities in their society; individualism = the higher the score, the more individualistic is the country; masculinity = the higher the score, the more individuals will be driven by masculine values such as competition and achievement orientation; uncertainty avoidance = the higher the score, the more intolerant is the society to change and innovation. Source: geert-hofstede.com.

9. Outlook

In late 2008, CEO José Rubens de la Rosa had indicated in an interview to the Brazilian business newspaper Valor that the company continued to consider increasing its operations in Southeast Asia and reentering the Russian market, but that the priorities were the consolidation of the operations in Egypt and India. He had pointed out that, “in the medium term, we must also think of re-positioning ourselves in the Russian market. But everything will have to be done calmly and without rush.” (Laguna, 2008). By the beginning of 2011, further international developments due to the global crisis and the turmoil in the Arab world brought up new issues that demanded careful consideration by Marcopolo’s management. In fact, the company was at a crucial stage of its international development.

One issue is whether or not Marcopolo has gone too fast in its recent internationalization moves (Appendix A provides a timeline of Marcopolo’s international trajectory). After many years of a gradual internationalization process, Marcopolo had started three major joint venture operations—with Russia, India, and Egypt—in only three years. Nevertheless, globalization was forcing the company to accelerate its (already late) internationalization process in order to establish a solid position in emerging markets, where Marcopolo had substantial competitive advantages. Among those, the most relevant were the know-how to build buses for roads in poor conditions, typical of developing countries, and the friendlier attitude of emerging countries’ governments and people to companies from other developing countries.

A second issue is whether or not the company had gone too far, both from a geographical and a sociocultural standpoint. With its global operations, Marcopolo now had to deal with different world regions, cultures, and political and economic systems (Figs. 18 and 19 provide information on culture dimensions and transparency in countries where Marcopolo operated). In addition, geographical distances imposed several constraints on company management in terms of communications and transportation.

A third issue concerns the selection of foreign markets where to invest. Did the firm need to improve its market selection process? The impact of the global crisis and of the ‘Arab Spring’ had to be taken into consideration when examining these issues. Although these were uncontrollable environmental factors, their potential long-term impact on Marcopolo’s operations in specific countries needed to be assessed.

Acknowledgment

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Transparency International Corruption Index (2011) for Countries with Marcopolo Operations

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>100</td>
<td>3.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>73</td>
<td>3.8</td>
</tr>
<tr>
<td>China</td>
<td>75</td>
<td>3.6</td>
</tr>
<tr>
<td>Colombia</td>
<td>80</td>
<td>3.4</td>
</tr>
<tr>
<td>India</td>
<td>95</td>
<td>3.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>100</td>
<td>3.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>32</td>
<td>6.1</td>
</tr>
<tr>
<td>Russia</td>
<td>143</td>
<td>2.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>64</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Fig. 19. Transparency International Corruption Index (2011) for countries with Marcopolo operations. The index varies from 0 to 10; the lower the score, the more corrupt the country is perceived to be. Source: http://www.transparency.org/cpi2011/results.
Appendix A. Timeline of Marcopolo’s Internationalization Process

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>Company foundation</td>
</tr>
<tr>
<td>1961</td>
<td>First export agreement to Uruguay</td>
</tr>
<tr>
<td>1978</td>
<td>Marcopolo goes public</td>
</tr>
<tr>
<td>1990</td>
<td>FDI in Portugal in association with a local private group in order to have access to Northern African markets</td>
</tr>
<tr>
<td>1992</td>
<td>FDI in Mexico by means of a joint venture with a local firm in order to have access to the Mexican and U.S. markets</td>
</tr>
<tr>
<td>1997</td>
<td>The Mexican operation becomes a sole venture FDI in Argentina by acquisition of a local company Company starts to study the Chinese market</td>
</tr>
<tr>
<td>1998</td>
<td>The Mexican operation becomes a joint venture with DaimlerChrysler</td>
</tr>
<tr>
<td>2000</td>
<td>FDI in South Africa to access the southern part of the African continent Marcopolo signs a license agreement with the Iveco–CBC joint venture in China</td>
</tr>
<tr>
<td>2001</td>
<td>FDI in Colombia by means of a joint venture with a local firm in order to reach the Northern part of South America and the Caribbean</td>
</tr>
<tr>
<td>2002</td>
<td>Operations in Argentina are interrupted by the Argentinean economic crisis Company invests in a possible entry in India and Russia</td>
</tr>
<tr>
<td>2003</td>
<td>Conflicts between the partners lead to the end of the Iveco–CBC joint venture and of Marcopolo’s licensing agreement</td>
</tr>
<tr>
<td>2006</td>
<td>Marcopolo signs a joint venture agreement with the GAZ Group Bus Division of Russia Marcopolo signs a joint venture agreement with the Indian firm Tata Motors Operations start in the Russian joint venture Operations start in the Indian joint venture Marcopolo acquires a stake in an Argentinean producer of bus bodies</td>
</tr>
<tr>
<td>2008</td>
<td>The Russian joint venture receives an award for the “Best Bus in the Year” Marcopolo signs a joint venture agreement with a local Egyptian manufacturer, GB Auto The global crisis hits Russia Marcopolo announces the temporary suspension of chassis purchases in Russia</td>
</tr>
<tr>
<td>2009</td>
<td>Closure of the Portuguese operation Termination of the Russian joint venture Temporary suspension of operations in Mexico Operations start in Egypt Political turmoil in Egypt and deposition of President Mubarak Temporary suspension of operations in Egypt</td>
</tr>
<tr>
<td>2010</td>
<td>Political turmoil in Egypt and deposition of President Mubarak</td>
</tr>
<tr>
<td>2011</td>
<td>Temporary suspension of operations in Egypt</td>
</tr>
</tbody>
</table>

Appendix B. Marcopolo financial information (2006–2010)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (in thousands of USD)</td>
<td>813,405</td>
<td>1,169,484</td>
<td>1,062,639</td>
<td>1,139,345</td>
<td>1,745,466</td>
</tr>
<tr>
<td>Net profit (in thousands of USD)</td>
<td>55,991</td>
<td>81,557</td>
<td>52,421</td>
<td>70,361</td>
<td>174,137</td>
</tr>
<tr>
<td>Total assets (in thousands of USD)</td>
<td>668,994</td>
<td>1,137,505</td>
<td>1,015,486</td>
<td>1,393,286</td>
<td>1,783,797</td>
</tr>
<tr>
<td>Net equity (in thousands of USD)</td>
<td>249,085</td>
<td>328,599</td>
<td>282,520</td>
<td>410,887</td>
<td>562,820</td>
</tr>
</tbody>
</table>


Teaching note

Case objectives

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

- examine how a company from one of the BRICS countries entered other emerging markets;
- analyze the impact of the 2008–2009 international crisis on the firm and to what extent it forces the firm to change its strategy;

- discuss how different internationalization theories can be used to explain the international trajectory of an emerging market firm; and
- suggest possible strategies for the continuing internationalization of an emerging economy firm aspiring to achieve global relevance.

Case synopsis

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

After years of consistent headway towards a globalization strategy, including several success stories, the company was facing hard times in several fronts. The Portuguese plant, its first abroad, was closed in 2009, after almost 20 years in operation. In that same year the company pulled out of the joint venture with the GAZ Group in Russia. This last move represented a significant setback, since Russia was one of the most attractive markets for buses and had been one of the most important bets in Marcopolo’s recent internationalization efforts. The global crisis had also hit the Mexican joint venture. Political developments in Egypt, where the company operated under an association with a local company, had brought production to a halt, and prospects were unclear. In spite of that, the recent joint venture with the Indian firm Tata Motors and the operations in Brazil were doing quite well. Management faced the question of what should the next move be in their internationalization efforts and of how to cope with the uncertainties posed by the expanding geographical scope of their operations.

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

Intended use

The case can be used in international business, international marketing, international operations, multinational management, and emerging markets courses. It can be used alone, with a focus on the several risks faced by an emerging multinational and the impacts of the 2008–2009 recession and subsequent events on the trajectory of an emerging multinational firm. Alternatively, it can be used in conjunction with case A, “International expansion of Marcopolo (A): Adventures in China” to discuss a longer time perspective of international development of a firm, and how a domestic firm from an emerging economy turns into a global player. This case has been successfully used in graduate programs courses. It can also be used in executive programs and training of government officials.

Suggested questions for class discussion

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

12. How successful was the firm in its international expansion until now?

13. How should Marcopolo proceed in its internationalization process?

Case analysis

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

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

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

Second, Marcopolo was a bus body manufacturer, and did not produce the chassis. Even though at first glance this could be seen as a limitation, it was in fact an advantage when establishing a joint venture with a local chassis manufacturer, since Marcopolo and the local company had complementary competences. Integrated manufacturers could of course enter into a joint venture to make only bus bodies, but a local manufacturer might be reluctant to reveal its product and process characteristics to a potential future competitor, for fear of opportunistic behavior by the partner (Williamson, 1975).

A third advantage was being an emerging market firm. There seems to be a more favorable attitude between managers of firms from emerging economies than between those managers of large, long-established multinationals from the United States and certain European countries. This attitude may be explained by different reasons, including resentment of previous colonial ties, prejudice against imperialism, etc. In addition, Marcopolo was still an entrepreneurial firm, a characteristic it shared with several potential partners in the target countries.

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

A fifth advantage was Marcopolo’s experience with joint ventures in foreign markets. Sixth, Marcopolo had the technological capabilities, the experience, and the size to be attractive to potential partners in a joint venture in emerging countries. The company was a worldwide technology leader in its industry. Further, as most Brazilian global players, it was backed by the Brazilian National Economic and Social Development Bank (BNDES), a giant institution even when compared to the Inter-American Development Bank (IDB) or the World Bank.

As to the disadvantages, the most significant was the firm’s lack of experience in these specific markets. Because of geographical distance and freight costs, Marcopolo had not started out exporting and establishing a commercial office before moving on to foreign direct investment in Russia and India—a path predicted by the Uppsala internationalization process model (Johanson & Vahlne, 1977, 1990), and followed in the past by most multinational firms from developed countries. On the contrary, the firm entered these two markets without having gained any previous experiential knowledge. It was to some extent different in the case of Egypt, since Marcopolo had already been exporting to that market for several years.

Furthermore, Marcopolo’s rapid pace of internationalization—the Russian joint venture agreement was signed in April 2006, the Indian agreement in May 2006, and the Egyptian agreement in mid-2008—meant that top management could not concentrate attention and efforts in a single new venture. This last issue deserves further discussion.

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

A substantial percentage of the population in Russia and India uses buses as a primary means of transportation, and both countries rank among the five largest markets for buses worldwide. However, bus fleets were old and obsolete in both countries. In Russia, there had been a significant reduction in the public bus fleets and a large proportion of the remaining ones were in need of immediate replacement. The situation was no better in India, where the government had launched a special program to partially replace existing bus fleets. In addition, road conditions were poor, especially in India. Finally, 60% of the Egyptian population used buses and a large part of the roads was in poor condition. Therefore, these were significantly attractive market opportunities for Marcopolo.

In addition, entering Russia and India was part of Marcopolo’s strategy to increase its global market share and become a truly global company: to manufacture in ‘the other side of the world’. The Indian operation was seen as the most important to the firm’s strategy. According to Marcopolo’s former vice-president, José Martins, it was not only a matter of selling buses in India: it was also a defensive move against Chinese competitors, since the Indian joint venture could sell buses at prices as low as the Chinese could practice in any country in the world.

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

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

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

The choice of a joint venture instead of a sole venture also had its logic. Not only in Russia, but in India as well, the logic was the same: “Only a joint venture made sense, considering the specificities of the market, Marcopolo’s lack of market knowledge, the need to have government connections, and the leading position of one major competitor.” As to the Egyptian joint venture, the main advantage was that “the Egyptian entrepreneur was well connected to Egyptian political circles, and had access to the right people and information—essential elements to be successful in business there.” In addition, Marcopolo was already quite experienced in developing successful joint ventures in countries such as Colombia and Mexico (these countries, however, were psychically close to Brazil, while Russia and India were not).

Q4—Why did things go wrong in Russia?

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

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

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

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

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

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

Nevertheless, there is some truth to the fact that whenever there is very rapid growth, it is almost certain that high risks were taken. Students may argue that the GAZ Group would have looked like a great partner to any firm in the bus industry that wanted to enter Russia with a joint venture, and that if the recession had not hit Russia hard at that time things might have gone quite well. We have to agree with this reasoning.

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

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

1. To continue to export from India—This is probably the alternative that presents less risk. Unfortunately, it seems to be difficult to gain a large share of the Russian bus market with exports.

2. To re-enter the Russian market as a sole venture—On the positive side, it can be argued that Marcopolo has already gained experiential knowledge about the Russian market. Therefore the firm is better prepared now than it was before to manufacture in Russia without a partner and then sell bus bodies to different chassis manufacturers. On the negative side, it would still lack government connections which are of paramount importance to succeed in Russia.

3. To re-enter the Russian market with a new joint venture—This joint venture would be with one of the remaining players, once the turmoil in the industry ends. However, Marcopolo’s CEO wisely indicated that this move should take some time and that “everything will have to be done calmly and without rush”.

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

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

Q9—Why was the Indian venture more successful?

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

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

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

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

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

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

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

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

In spite of the global crisis, Marcopolo increased its worldwide sales and profits. These positive results were largely due to the superior performance of the two largest operations, Brazil and India. Apparently Marcopolo was doing quite well, despite the closing of the Portuguese and Russian operations and the problems in Egypt and Mexico. In fact, one could look at Marcopolo’s presence in China (see case A), India, and Russia (case B) almost as alternative manufacturing locations in “the other side of the world”. It is quite evident in the case that the success of the Indian operation gave the firm a strong foothold “in the other side of the world”, and a low-cost operation to compete with the Chinese. It is almost as managers had planned to do several experiments to determine which location was more favorable, instead of proceeding gradually, testing one alternative after the other.

Q13—How should Marcopolo proceed in its internationalization process?

There is no definite answer to this question. However, students should be encouraged to support their recommendations with solid arguments. The authors of the case believe that the firm needs to improve its international operations governance and control systems before going ahead, since there is a risk that the fast pace and broad scope of internationalization needed in order to become a truly global player would have a negative impact on shareholder value and profitability. However, the rapid increase in speed and scale of internationalization is not uncommon among multinationals from emerging economies when they attempt to compensate for their late entrance in foreign markets.

Theoretical issues

The final stages of Marcopolo’s international expansion, as depicted in this case, cannot be fully explained by traditional internationalization theories. There is a consensus in the literature that the Uppsala model
explains better the early stages of internationalization. Although it is useful to understand how Marcopolo started its internationalization process (see case A and Appendix A in this case), that theory cannot explain the moves described in this case. Neither the Eclectic Paradigm of International Production nor Internalization Theory can explain this process. At this point, only a few studies on strategies followed by emerging market firms are available, and there is no consistent theory to explain why and how emerging market firms internationalize. There are several sources in the literature that may be useful in understanding the issues involved in the multinationalization process of emerging market firms, such as Casanova (2009), Ramamurti and Singh (2009), Ramsey and Almeida (2009), Sauvant (2008), and Sauvant, McAllister, and Maschek (2010).

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

A third theoretical approach relates to the market selection decisions taken by the company. Students could refer to two excellent textbooks: Cavusgil, Knight, and Riesenberger (2008) and Hollensen (2011). In addition, an article by Minifie and West (1988) can also be useful.

Finally, another possibility is to explore sociocultural differences among countries using Hofstede’s cultural distance index (see Fig. 18). A vast literature is available on this issue, including books and articles by the author (Hofstede, 1983, 1991).

Other relevant information
This case may be used in conjunction with case A—“International expansion of Marcopolo (A): Adventures in China”—which discusses the sequential steps in Marcopolo’s internationalization until 2005.

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

References