Universidad de La Sabana

Master’s Project

Internationalization case

Havaianas Brazil

Student:

Sergio Sánchez

Chía, Colombia 2023

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Abstract

The Havaianas company is a Brazilian company that started in 1962 at the local market in Brazil and then in 1998 started their global market. The company only produced one product. It was a genuine idea from the Scottish Business Man Robert Fraser when he arrived in Brazil in 1958 and created a prototype of the Zori sandals that arrive from Japan.

Nowadays, the company is a worldwide company which have stores and distributors over 100 countries around the world. This company have been sustainable through the time and keeps getting bigger every single year.

Thanks to the statistic ARIMA model we will analyze the progress and the impact the internationalization had in Havaianas in every block of countries the company arrived. In this model, we will base our analysis on the ROE and ROA of the company through the years and within their performance.

Introduction

Internationalization (expansion into foreign markets) has emerged as an important factor company in their pursuit of enduring growth and triumph in an ever-changing global marketplace. By venturing outside of their domestic market, companies can access to more robust and diversified sources of revenue, acquire a wider pool of talent and resources, attain exposure to diverse cultures and business practices (Merino, F. 2022).

In addition, internationalization can provide an insurance policy against political instability, high inflation rates, fluctuating currency economic, downturns and market-specific hazards by diversifying a company's revenue streams and customer base (Merino, F. 2022). Ultimately, internationalization can significantly influence a company's financial records, with increased sales, profits, and cash flow, indicating the advantages of global expansion (Tournois, 2021).

Gaining insight into the internationalization process is important for various reasons. Firstly, it helps to identify the methods and strategies that have led to success in penetrating new markets on an international level. Secondly, analyzing the internationalization approaches of successful companies enables us to detect patterns and trends in the global market, and better comprehend the factors contributing to success across diverse regions and industries. Through scrutinizing the internationalization process, we can gain valuable knowledge on how to spot and capitalize on opportunities for growth and expansion in different countries and regions (Prieto-Sánchez, 2022).

This knowledge can then be applied to enhance the internationalization efforts of Latin American companies looking to expand their operations. Comprehending the internationalization process of Latin American companies and their methods can help identify best practices and develop effective strategies for global expansion. In this instance, Havaianas enterprise will be examined. This research paper aims to examine the internationalization process of a successful company (Havaianas) that expanded to over 130 countries using Uppsala and CSA methods. We wanted to understand the factors that contributed to its success in diverse markets, as well as the challenges it faced during the internationalization process. To do this, we used the ARIMA model, which allowed us to analyze the company's financial statements and identify any trends or patterns that emerged because of its global expansion.

We found that the company's internationalization efforts positively impacted its financial performance, including metrics such as revenue, profits, and cash flow. Our findings can be useful for other companies looking to expand globally by providing insights into effective strategies and best practices. We hope this research provides a comprehensive analysis of the internationalization process and can serve as a helpful reference for businesses seeking to achieve successful global expansion.

This paper continues describing the Havaianas history, methods, results, and conclusions.

History of Havaianas

In Brazil, the Havaianas market is wide, where the number of people in Brazil is around 204 million. This means that in the Brazilian market exists 850 pairs of sandals for every thousand habitants. That is that almost 173 million people have a pair of Havaianas in Brazil according to the “Relatorio Annual Havaianas 2021”.

This company, that started in the 60’s, started with a vision to produce a product that will be affordable for the most part o communities in Brazil due to the economic problems in the country. This strategy increased exponentially their popularity inside this country and was not focused only on the less benefit social class, the upper class also started to wear this kind of sandals due to the high acceptance of the product at the local level.

It was a genuine idea from the Scottish Business Man Robert Fraser when he arrived in Brazil in 1958 and created a prototype of the Zori sandals that arrive from Japan. The Zori sandals were a basic sandal made from the waste of Japanese rice in Japan it was very popular among the Asian people and every person in Asia had a pair, even the high classes of the countries.

Through the years, the company has been facing a lot of challenges in order to increase and maintain its dominance over Brazil, even though, the company also started to expand and penetrate new markets around the world to fulfill de demand of foreign Brazilians around the world.

One of the biggest problems of Havaianas to internationalize was the corruption through a different government. This affected their production, their stability, and the growth the company was facing in the market. Joesley Batista, the president of the company was caught having conversations with the Brazilian president Michel Temer to blackmail people in Brazil. Due to this, the company has been punished by the government with the amount of US$3.000.000 to repair this big mistake. This affected badly the states of the company due to financial problems and popularity problems. Thanks to this high price of the fine, the shareholders decided to sell part of the company to pay off the debt. This specific situation actually helped the brand Havaianas to increase their sell-out and profit around the world.

In 1998, for the soccer world cup in France, Havaianas released a new model of sandals 100% different from the previous models. This model has something new in the presentation that made every single Brazilian buy it. Now, the previous models were just the sandal in a big variety of colors but nothing else. For the 1998 world cup, the brand decided to release a product with their basic model plus a Brazilian flag and this was the boom of the brand to internationalize globally because a lot of people as foreign people as Brazilian in other countries wanted this product. They have a phrase that says "***we didn't catch the world cup but Brazil caught the world***". Thanks to this, the brand Havaianas went to new countries as Australia, the USA, Spain, etc. And in 2007 as a way to get bigger opened a new office in New York. This office in New York, opened new markets to the company, expanded their horizons and improve their sales and the magnitude of customers worldwide.

Image 1

Nowadays, Havaianas is one of the biggest Brazilian companies in the world, selling in 2020, 79 million pairs of sandals with a profit of R3,1 billion.

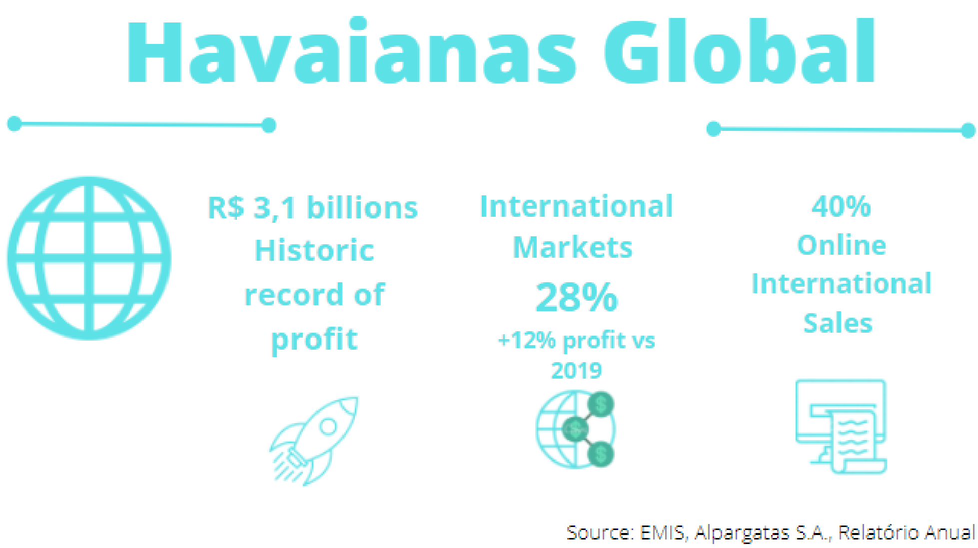


Image 2

As we can see, Havaianas are increasing their sales on international markets worldwide, they are expanding their frontiers and, they are always working on new products that their customers would like and buy anywhere in the world. This leads the brand into new customers every day and to expand their frontiers constantly.

Methodology

Data

By taking the information from the official website of Havaianas, we found the exact time when the company arrived into these countries mentioned below, and we compared to the information shown by EMIS of their financial statements in order to understand the impact that the internationalization method that they used to get into these countries, and we found the relation into the positive and negative or partial effect that it had into the financial statements of the Havaianas operations. We can see that the company entered Japan in 1998, entered fully South America in the 2000, entered in Canada in 2002, entered the Philippines and Australia in 2004, entered South Korea and Taiwan in 2009 and finally entered in Central America in 2010.

Variables

ROE (Return on Equity) and ROA (Return on Assets) are two important financial ratios used to measure a company's profitability and efficiency. To calculate these ratios, you need to use financial data from a company's income statement and balance sheet as we used from Havaianas financial statements from EMIS.

The way we calculate these two financial ratios is by:

ROE:

Find the company's net income from the income statement.

Find the company's shareholder's equity from the balance sheet.

Divide net income by shareholder's equity to get the ROE.

ROE = Net Income / Shareholders' Equity

ROA:

Find the company's net income from the income statement.

Find the company's total assets from the balance sheet.

Divide net income by total assets to get the ROA.

ROA = Net Income / Total Assets

Other variables that we used in this ARIMA analysis is a vector of dummy variables over the financial statements of the ROA and ROE from Havaianas which take the value number 1 for the years that the company penetrated the market and 0 for the years that the company wasn’t in the countries. showed by Japan, South America, Canada, Philippines /Australia, Taiwan/South Korea and Center America, which take the value of number 1 if Havaianas have arrived into the country analyzed or 0 if Havaianas have not arrived into the country.

Model

This section aims to describe the ARIMA models, the control variables included in each of them, and the main results. The structure of the intervention model, the unit root tests, the estimation of average ROA and ROE growth and the specification tests on normality and error correlation are presented.

Intervention Analysis

Intervention analysis is an econometric technique that seeks to estimate the influence of certain external events on the historical behavior of a time series. These external events are called interventions and are associated, among other actions, with specific changes in public policy. According to Guerrero (2003), measuring the impact of an intervention is extremely important since it can help explain the behavior of the series and improve the estimation of the parameters and the results of the model.

The intervention analysis technique is based on the Autoregressive Integrated Moving Average (ARIMA) model methodology developed by Box and Jenkins in 1976. Under this methodology, a time series involving external interventions can be expressed as the sum of an invertible stationary ARIMA model and a function that represents the effects of the intervention. The expression $T(Z_t) = N_t + E_{I,t}$ incorporates the effect of an intervention into a time series. N_t represents the ARIMA stationary temporal model $\phi(B)\nabla^d N_t = \phi_0 + \theta(B)a_t$, y $E_{I,t}$ intervention function. Therefore, to estimate the effect of an intervention on the behavior of a time series, it is essential to estimate a stationary and invertible ARIMA model and identify the functional form of the intervention.

The specification of the equation to estimate the changes in the ROA and ROE of the company as a consequence of the internationalization is showed in the following representation:

$$Y_t = \beta_0 + \beta_i X_t + E_t$$

In which

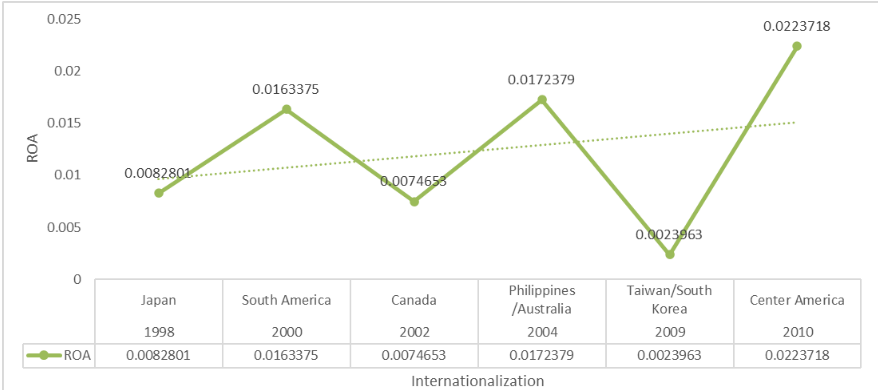
$\boldsymbol{Y_t}$**:** ROA and ROE of Havaianas Company

$\boldsymbol{X_{it}}$**:** Dummies variables of the vector which shows the exact moment of the internationalization of the company.

$\boldsymbol{E_{it}}$: Vector of Residuals

Descriptive statistics

Graphic 1 show Havaianas increased their sales through time by measuring the ROA and ROE with the specific dates for when they arrived into a new market:



Graphic 1. ROA

Graphic 2. ROE

As we can see in the both graphs, there is a common behavior between the ROA and the ROE, where when they arrive into countries like South America (22%), Philippines/Australia (24%) and Center America (32%). With this information taken from EMIS, we can see that in the different years that the company penetrated some specific new markets they had some increase in their financial statements and in other specifics countries like Japan (16%), Canada (11%) and Taiwan/South Korea (4%). They had no significant impact by penetrating these new markets due to different specific situations of the Country Specific Advantage that we are going to discuss in the results and discussion section.

Results

Unit Root Tests

Before estimating the models, it is necessary to guarantee that the data follow a stationary process by the ARIMA methodology. The company growth (internationalization) goes around a positive increase through the time. These behaviors are characteristics of stationary series. The Table 1 shows the results of the tests of the ARIMA statistic intervention in the respective countries with the time Havaianas arrived. In all cases, the null hypothesis of unit root is rejected, so it is concluded that financial growth is stationary.

Table 1. Unit Root Tests: ROA Y ROE

Nacional/ Deptal	DICKEY – FULLER			PHILLIPS – PERRON		
	Estadistico	V.Crítico	P-value	Estadistico	V.Crítico	P-value
ROA	-2.948	-1.69	0.029	-4.225	-2.908	0.000
ROE	-3.627	-1.701	0.000	-4.639	-2.086	0.000

Source: Author

Once it is verified that the ROA and ROE of the company follow a stationary process, the ARIMA models are estimated. The results are presented in Table 2 and 3. And each one of these tables is made up of 6 columns which reflect the different moments of the internationalization of the company.

Table 2. Intervention Analysis ROA

ROA	South America	Central America	Canada	Japan	Philippines/Australia	Taiwan/South Korea
Intervention	0.0163375**	0.0223718**	0.0074653	0.0082801	0.0172379***	0.0023963
AR(1)	0.4203959***	0.4465789***	0.4391653***	0.4475125***	0.4048841***	0.4614559***

The models are autoregressive of order 1, uncorrelated and normal. significance levels: *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 3. Intervention Analysis ROE

ROE	South America	Central America	Canada	Japan	Philippines/Australia	Taiwan/South Korea
Intervention	0.0220755 **	0.032742 **	0.0116304	0.0168144	0.0244277 ***	0.0044329
AR(1)	0.3473834 ***	0.3510069***	0.3260926 ***	0.3558572***	0.3123494***	0.3534083***

The models are autoregressive of order 1, uncorrelated and normal. significance levels: *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Now, as we can see in the Table 2 that is the ROA (Return of Assets), we can see that when Havaianas internationalized to South America +1,6%, Central America +2,2% and Philippines/Australia +1,7%, they had a significant increase. We faced the opposite aspect with the internationalization of Havaianas in Canada, Japan and Taiwan/South Korea that didn't have any significant increase in their financial statements. Also, in Table 3, we can see the same behavior with the ROE (Return of Equity) with the same countries and regions, South America +2,2%, Central America +3,2% and Philippines/Australia +2,4%.

Discussion

The interesting results of this ARIMA model provides us with detailed overview of the company’s financial health, including revenue, expenses, and net income. We can see that entering South America, is very different than entering Asia or other continents, the culture and diversification is different all around the world. Also, it is known that, in every continent, every country that is part of it is wide different from the others.

This regarding, in the results of the ARIMA model that we build in this research, we found that Havaianas had successfully entered the countries with country similarities with Brazil. For example, Brazil has a large expansion of coast sea, as it does Colombia, Perú, Argentina and Chile, but also, as Australia, Japan and Central America does. This is an important factor that help us determinate the methods that Havaianas applied into the internationalization process and the reason for their success. (E Silva, S. C. 2019)

Geographically, South America is a continent located in the Western Hemisphere. This can be traduced as for South America is most likely to be visited by Americans regarding location. Culturally, South America, have a wide variety of cultures, customs, traditions and social norms. Also, we can find only two predominantly languages as Spanish and Portuguese. And a common religion as Catholic. Politically, South America, have been facing many changes throughout the variety of nations in the continent. Altogether, this information helps us to understand how approachable it is for a country as Brazil to export or import products and services from South American countries. (Tanure, B. 2017)

The reasons why Havaianas get into those countries are that Brazil have many benefits when they talk about exporting their products to other countries in the world and being accepted by society. Their geographic proximity to many Latin American nations and continents like Europe that makes it easier and more affordable to transport goods compared to exporting products to other regions. The closeness between Brazil and these nations also creates opportunities for stronger cultural connections and relationships between nations, leading to robust trade partnerships.

Additionally, many countries share cultural and historical ties with Brazil, facilitating trade and commerce. Shared language, traditions, and values create a sense of trust and familiarity between nations, making it easier to do business.

When a Brazilian company expands internationally, it can leverage its Country Specific Advantage (CSA), which refers to unique resources and capabilities specific to Brazil, this includes, traditions, culture, people, environment and many more. CSA gives the company a competitive advantage in the global marketplace. (Tanure, B. 2017)

Brazil's diverse economy, rich natural resources, and large domestic market provide Brazilian companies with unique advantages for expanding abroad. Moreover, operating successfully in Brazil's complex business environment can provide valuable experience and resources that can be leveraged for international expansion. A company with in-depth knowledge of local regulations, laws, and customs can effectively navigate the complexities of foreign markets. (Overby, J. W. 2021)

Leveraging CSA can also help Brazilian companies build trust with foreign partners and customers. The unique characteristics of Brazil's culture, language, and history can foster stronger relationships with other Latin American countries, leading to better trade partnerships and increased market share.

In fact, Brazilian companies can benefit greatly from leveraging CSA when expanding internationally. By capitalizing on its unique resources and capabilities, a Brazilian company can gain a competitive advantage in foreign markets and achieve long-term success in the global marketplace. (Hudzik, J. K. 2019)

The Uppsala model is a well-known framework for explaining the internationalization process of companies. It proposes that internationalization occurs in stages, with firms gradually increasing their commitment to foreign markets as they gain experience and knowledge.

For Havaianas, the Uppsala model can be an effective guide for international expansion. The model emphasizes the importance of gradually increasing a firm's involvement in foreign markets, starting with countries that are geographically and culturally close. This approach aligns with Brazil's unique advantages in Latin America and other parts of the world, where it has strong cultural and economic ties with some countries by governmental and socio-cultural management.

The Uppsala model also highlights the importance of experiential learning, where a company gains knowledge and expertise from its activities in foreign markets. This can be very important for Brazilian companies, as it can help them to understand and penetrate the industries and learn about the how-to business in these new environments and. By gradually increasing their involvement in foreign markets, Brazilian companies can gain valuable experience and develop relationships with local partners, helping them to expand further into new markets. (Hudzik, J. K. 2019)

Another key aspect of the Uppsala model is the concept of psychic distance, which refers to the cultural, language, and administrative differences between countries. This concept is important for Brazilian companies, as they expand into markets where they may face unfamiliar regulations and cultural norms. By starting with markets that are geographically and culturally closer, Brazilian companies can reduce the psychic distance and gradually expand into more distant markets. (Anderson, W. 2019)

With all, the Uppsala model provides a useful framework for Brazilian companies seeking to expand internationally. By gradually increasing their penetration in foreign markets and learning from their experiences and their partners in the internationalization, Brazilian companies can successfully avoid the process obstacles or difficulties in the internationalization process of penetrate a new market with or without any partners in the location for the long-term duration and the finding of new opportunities through the market trends. (Hudzik, J. K. 2019)

Those two theories are the ones that Havaianas used based on the research of the history and the study of their internationalization process among the information we found of them in their historical resources of the company. Brazilian companies may use Country Specific Advantage (CSA) and the Uppsala model to internationalize their products around the world.

By leveraging CSA and the Uppsala model, Havaianas gained a competitive advantage in the global marketplace. They capitalized on their unique resources and expertise, while also learning from their experiences in foreign markets. This helped them adapt to the complexities of global business and achieve long-term success. (Hudzik, J. K. 2019)

Furthermore, using these strategies also helped Havaianas build relationships with foreign partners and customers. By starting with markets that are geographically and culturally close, they can reduce the psychic distance and establish stronger connections with other Latin American and European countries. This can lead to better trade partnerships and increased market share. (Golovko, E. 2019)

In conclusion, using CSA and the Uppsala model was an effective strategy for Havaianas because they were seeking to internationalize their products around the world. By leveraging their unique resources and gradually expanding their involvement in foreign markets. Creating long-term relationship with local distributors and learning for them in order to understand the market they were penetrating, also, the Brazilian cultural power worldwide helped the brand to get into the mind of humans as a Brazilian product also because it was a product that is part of the basic supplements of the Brazilian people. Another fact is that after the world cup in 1998 they left a huge impact in Europe and around the world after Brazil lost the final against France, everybody said that Brazil lost, but they actually won the recognition globally by their special Brazilian flag Havaianas that help the company penetrate the markets around the world.

Conclusions

So, after the discussion of the results in the ARIMA analysis we did on the financial statements of Havaianas and the research of the historic time of entry into new markets. The ARIMA model gave us valuable insights into the trends and patterns of the Havaianas company financial data over time. Also, through this research, we found the ways that Havaianas internationalized into new markets around the world.

First of all, the methodologies used by Havaianas to internationalize their operation into new markets were the Country Specific Advantage (CSA) and the Uppsala model. These two models helped Havaianas to penetrate new markets around the world.

As we mentioned in the discussion part of this paper, we can understand why had more success in some countries than in others. We can see that many variables impact the internationalization process, variables like: demographic location, political, cultural, social and many more that we mentioned above influence the internationalization process.

Even though, Havaianas have had a huge success in their internationalization process along the way. From starting local to being one of the biggest companies in Brazil, a country with many powerful companies. We can see that having a strong Country Specific Advantage can help you enter into a new market that likes your culture and also that wants to be part of your culture. This is the case of some countries in Europe and America. Being Brazilian is a plus to penetrate markets with these kinds of products. People will automatically associate the product to the country and then for being a well-known country, people will mostly purchase the product.

Thanks to the ARIMA model, we finally identified with the ROA and ROE which countries were penetrated correctly or efficiently by Havaianas and which countries not. For example, we saw that Taiwan and Philippines were countries that didn't have received the company as the others like Australia, or Japan, when we tried to understand why it happen, we identified that those countries have their own type of sandals and also have a very strong culture with it, as Brazil have a strong culture with Havaianas, those countries also have their pair of cultural sandals that every person in the country feel identified with. That is why those countries are a challenge to Havaianas. Even though, Havaianas had a great internationalization strategy.

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