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Case for Teaching

Natura Goes Shopping: The Case of an Emerging Market Multinational

Natura Vai às Compras: O Caso de uma Multinacional de Mercado Emergente

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Discipline: International Business
Subject: Internationalization of Emerging Market Multinationals
Industry: Cosmetics, Fragrances and Toiletries
Geography: Global

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INTRODUCTION

It was a Thursday night in January 2020. John, a manager of Natura &Co's international business department, was lying in bed in his apartment in São Paulo and could not sleep. He knew that in a few hours he would have a meeting that could change Natura's future. On Friday morning, he would attend the strategic planning meeting of the group, and he was responsible for presenting the main objectives for Natura at the international level.

The previous years had been quite challenging for the group. Natura had gone from a regional Brazilian player, operating mainly through door-to-door sales, to a global giant, the fourth largest consumer group in the cosmetics industry. Moreover, Natura had just made sequential acquisitions of three substantial companies: Aesop, The Body Shop, and finally, its major rival, Avon.

For this reason, John strongly believed that it was time for the group to benefit from the recent acquisition of Avon and progress the internationalization of the Natura brand. He had everything prepared on his PowerPoint presentation: next steps to insert the brand in all continents, acquire more resellers, and open new physical stores. However, Max, his direct superior, disagreed with his ideas; in reviewing the work, he had advised John to change the entire presentation for the next day. "Natura needs to 'digest' the acquisitions first. It is not yet time to think about expansion when the group has not yet managed to implement all the planned integrations and synergies."

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Indeed, John could see Max's point of view. The company had yet to finish restructuring The Body Shop's image, strategy, and operations to match the groups' when they took the bold decision to acquire one of its biggest rivals in Latin America. Doing so would entail incorporating operations, adjusting processes, and looking for synergies all over again, this time with the added worry about possible overlapping of sales. "Wouldn't these sequential back-to-back acquisitions be too much for Natura to handle? How are we going to manage such risky moves, after a history of small, incremental international moves and investments? Do we really have the managerial capacity to compete globally?" All these questions were voiced by Max and concerned John as well.

Nevertheless, John knew that it was a unique moment and an opportunity to deepen the company's internationalization. "We cannot miss this opportunity out of fear," he replied. "We are the fourth-largest beauty player in the world; we need to change our mindset and act accordingly."

As he contemplated Natura's challenges ahead, he glanced at the time: the meeting was scheduled for early morning the next day, and they had not yet made a decision about the presentation. So John got out of bed, poured himself a cup of coffee, and sat down in his office to open up his laptop. "Let's decide what to do with this presentation," he told himself.

THE INDUSTRY

The main product categories comprising the cosmetics, fragrances, and toiletries industry are skincare, hair care, makeup, perfumes, and hygiene products such as toiletries, deodorants, and oral cosmetics. Skincare products are the most profitable category and have been enjoying continuous growth in the last couple of years, reaching 39% of the global market within the industry. Hair care and makeup categories follow closely with 21% and 19% respectively. Since 2018, the Asia-Pacific region has been the leader in the cosmetics market, and that region, together with North America, accounts for nearly 60% of the global market.

According to ABIHPEC (Brazilian Association of the Cosmetic, Toiletry and Fragrance Industry), Brazil was the fourth biggest market for that industry (6% of overall consumption), behind the United States (19%), China (14%), and Japan (8%) in 2018. Although nearly 3,000 enterprises compete for this market in Brazil, almost 50% of the market is controlled by five big companies. Natura &Co is the largest and is followed by Boticário (another Brazilian group) and other international players (Unilever, L'Oréal, and Colgate-Palmolive).

Globally, the cosmetics industry has grown steadily at around 5% a year from 2017 to 2019 and has benefited from the increasing popularity of social media channels such as Instagram and YouTube. Indeed, beauty products and makeup are the second largest category for engagement in social media, and this phenomenon has driven the emergence of niche-focused, direct-to-consumer brands that are leveraging targeted social ads and influencer marketing to achieve high levels of growth, as is the case for Kylie Cosmetics, Glossier, and Drunk Elephant. Apart from that, the top ten companies competing for market share are traditional multinational companies, including the French L'Oréal (first in the rankings), Coty (6th), LVMH (7th), and Chanel (9th). The British Unilever ranks second, followed by the American Estée Lauder Cosmetics (3rd), Procter & Gamble (4th), and L Brands (10th). The Japanese Shiseido ranks fifth, and Germany's Beiersdorf appears in eighth place.

For the foreseeable future, Euromonitor International has predicted three major tendencies for the industry, namely (1) digital presence, (2) ethical behavior, and (3) the introduction of organic, natural attributes. Globally, e-commerce has seen yearly growth of 23%, driven mainly by Asian countries. Latin America has presented a consistent growth rate of 21.5%, with Brazil alone accounting for 40% of the online consumption in the region (Euromonitor).

Regarding those trends, Natura &Co was created on the premise of using natural resources as key elements in its products and has been known since its early days for environmentally and socially responsible business conduct. Also, the company has focused on enhancing its digital presence for the last couple of years, albeit without neglecting its traditional and well-established sales channels — independent consultants and physical stores. Its main goal was to excel at being omnichannel, setting and promoting the most suitable alternatives in each market where one or more of its brands were present worldwide.

THE COMPANY

Natura &Co is a global direct-to-consumer relationship group comprised of four beauty companies: Natura, The Body Shop, Aesop, and Avon[1]. The group is present in 100 countries in all continents and has a network of over 6.3 million independent consultants and representatives, 35,000 employees and associates, and 200 million consumers around the world[2]. Its mission is to nurture beauty and relationships for a better way of living and doing business, while aspiring "to dare to innovate, to promote positive economic, social, and environmental impact"[3].

Natura

Natura was founded in Brazil and operates in Argentina, Bolivia, Chile, Colombia, France, Malaysia, Mexico, Peru, and United States. It has a network of 1.8 million direct sales consultants who work for the brand worldwide, 490 company-owned and franchise stores, and a growing online platform. The company seeks to create and commercialize products and services that promote wellbeing[4]:

> "Due to our corporate behavior, the quality of the relations we establish and our products and services, we will be a group of brands with strong local and global expression, identified with the community of people committed to building a better world through a better relationship with themselves, with others, with the nature of which they are a part, with the whole."

Natura's product portfolio is available to millions of consumers, mainly through the relationship selling model and supported by the resellers in Brazil and other countries in Latin America. Additionally, the company has an online sales platform with more than five million registered consumers and was elected the best e-commerce site in Brazil in 2018. Natura is the largest Brazilian multinational in the cosmetics industry.

Finally, Natura is strongly committed to generating a positive impact in the world. As a publicly traded company with shares traded on Brazil's B3 stock exchange, Natura was the first publicly traded company in the world to become a Certified B Corporation (2014). Moreover, in 2018, the company ranked as the 14th most sustainable company in the world by the Canadian group Corporate Knights.

History of Natura

Natura was founded in 1969 by Luiz Seabra, who in 1970 opened the first store on the well-heeled Rua Oscar Freire, an upmarket shopping area in São Paulo, Brazil. However, the direct sales business model for which the company is so well known was only adopted in 1974. During the 1990s, Natura strengthened its approach for generating positive impacts. In 1990, the company launched the Truly Beautiful Woman campaign, which encouraged women to discover and value their own beauty at every age. Additionally, it embarked on the first formal association with traditional communities in the Amazon region.

In 2000 Natura, with the launch of Ekos line, one of its most important lines, incorporated Brazilian biodiversity ingredients into its products. Then, in 2001, the company moved into its current new and modern headquarters complex in Cajamar, São Paulo, Brazil. The complex features factories, a research center, and offices integrated with nature. Natura became a listed company on the São Paulo Stock Exchange, B3, in 2004. By 2006, remaining consistent with its ambition of doing good, the company had already completely eliminated animal testing. In 2007, Natura launched the Carbon Neutral Program with challenging goals for reducing CO2 emissions. Furthermore, in 2011, Natura launched the Amazon Program to concentrate investments in the Amazon Forest, an initiative that has since generated investments of more than 1.5 billion reais in the region. In 2015, the United Nations awarded the company its top environmental award, Champion of the Earth.

The decade of 2010 was also marked by a change in the group's strategy. After much discussion and brainstorming, the group reformulated its strategic vision, deciding to work to become a multichannel, multiband global company. As such, a process of global acquisitions began. In 2013, Natura began the process of acquiring Aesop, which was completed in 2016. Then, in 2017, the company took a further step along this strategy by acquiring The Body Shop from L'Oréal group[1]. Finally, in 2019, the company announced its acquisition of Avon Products, a transaction that created the world's fourth-largest pure-play beauty company[1]. With this last addition to the group, Natura &Co became the leading company in the cosmetics, fragrances, and toiletries industry in Latin America, controlling almost 12% of market in 2019[5].

Internationalization of Natura

Natura began its process of internationalization in 1982, in Chile. This first attempt to go international started with an agreement with an outsourced distributor. In 1983, Natura created the brand Numina, which exported products to Florida and Portugal. These operations were run by people who worked at Natura or that used to have a personal contact with Natura managers. But due to a lack of planning and market knowledge, Numina became an economic loss, if not an important learning resource for the company.

Five years later, in 1988, Natura established a partnership with a local distributor in Bolivia; in 1992, it opened an operation in Peru and in 1994 established a local partnership with a distributor in Argentina. Natura's decision to expand in Latin America happened simultaneously with the economic stabilization of the Brazilian economy and the favorable growth rates observed in other Latin American countries.

In 2005, Natura decided to open a store on the Île Saint-Louis, in Paris, the European city where Brazilian products, Brazilian diversity, and Natura's sustainable development philosophy were recognized. More than a point of sale, the store was conceived as a locale to showcase

Natura's beliefs and vision. Furthermore, the store's opening meant a new sales model for the company. For the first time, the direct sales model was replaced by a retail store.

Based on the Paris experience, Natura decided to enter Mexico with a hybrid strategy. In 2005, as a late entrant in the country, the company created the Casas Natura concept, a place where sales representatives could share experiences and receive training. The concept could be seen as a middle ground between a pure direct sales model and a store chain. Therefore, Casas Natura would be a store in which it would be possible to present the company's beliefs and values to resellers and consumers. More recently, in 2007, the company commenced international operations in Venezuela and Colombia by setting up commercial operations with local sales representatives.

Until this moment, Natura had a strategy of using its own resources to enter new countries. Moreover, the company did not rule out the possibility of international acquisitions and alliances, at least in the short and medium term. Nevertheless, during the decade of 2010 the company changed its strategy. In 2013, Natura announced the acquisition of Aesop, the Australian premium cosmetics company, which, by then, was already operating in 14 countries with more than 80 stores. Natura secured a 65% interest in Aesop for USD 71.6 million, using Natura's own funds. Three years later, Natura took total ownership by exercising its option to buy all company shares. This acquisition helped Natura to both accelerate its growth internationally and learn from Aesop's experience with retail stores. Moreover, the acquisition helped Aesop enter Latin American markets.

Based on the knowledge acquired over time, in 2016, Natura opened its first store in Brazil. It then expanded into the United States, opening its first store in New York. Following the same learning strategy, in 2017 Natura acquired The Body Shop from the French group L'Oréal. The Body Shop group was acquired with a valuation of EUR 1 billion and was considered one of the world's biggest cosmetic chains with 3,000 stores in 66 countries. Unlike the previous acquisition, the capital for this purchase was financed. Furthermore, the acquisition of The Body Shop meant a decisive step in making Natura an international player in the cosmetics industry. It was also a way of sustaining its vision of cosmetics, natural ingredients, and environmental consciousness. By 2018, less than half of the company's revenue came from Brazilian sales.

> "Our union with Aesop and The Body Shop in recent years represented the beginning of our international expansion beyond Latin America. Under the umbrella of the Natura &Co group, we harbor different brand identities and business models, united by purpose, activism and ethical principles."

In 2019, Natura acquired its rival, Avon Products, a global reference in terms of the direct sales model. Natura agreed to acquire Avon in an all-stock deal that valued the company at USD 2 billion, a 76% share of the group, while the remainder was kept by Avon shareholders. The financial model adopted by Natura to acquire Avon surprised the market. The deal included the exchange of shares of the two companies and the disbursement of USD 530 million to the American shareholders, which did not significantly affect Natura's consolidated leverage profile. To scale up even more, Natura also used this deal as a strategy to expand internationally, especially in Asia, Europe, Latin America, and Africa. Furthermore, the takeover of Avon (previously its biggest rival in direct sales) can be seen as a renewed bet on the company's core business of door-to-door distribution. Eventually, the acquisition of Aesop, The Body Shop, and Avon transformed Natura into the global group today known as Natura &Co.

> "Natura and Avon together represent the transformational power of the positive cultivation of human relations, the basis of direct selling. … Now as a larger group, we have taken on the challenge of being the best FOR the world at a time when, more than ever, companies are expected to take on the role of building a more reassuring future."

The Body Shop

The Body Shop group grew from a single shop in Brighton, England, in 1976. The brand is currently present in more than 70 countries, with approximately 3,000 retail stores (owned and franchised). The company has 12 distribution centers, 45 e-commerce websites, and around 20,000 resellers. Furthermore, the brand is also engaged in taking up causes, such as banning animal testing. The Body Shop also promotes the UN sustainable goals for humanitarian aid for refugees and became a Certified B Corporation in 2019.

"Today our dedication to business as a force for good is stronger than ever. As part of our Enrich Not Exploit™ Commitment, we've made it our mission to enrich our products, our people and our planet. That means working fairly with our farmers and suppliers and helping communities thrive through our Community Trade program, being 100% vegetarian and always and forever being firmly against animal testing."

Aesop

Aesop was founded in 1987 in Melbourne as a luxury skincare brand. Still headquartered in Australia, the company nowadays operates in 23 countries, with more than 240 company-owned signature stores. Each store has a unique interior design developed in collaboration with various architects, designers, and artists. Additionally, it produces skincare, hair care, soaps, and fragrances that are marketed in 92 department stores. Aesop's digital platform is in place in 17 countries and operates key partnerships with other online sales platforms. Aesop is renowned for products created with meticulous attention to detail and sensory pleasure in mind.

The company is also concerned with establishing a culture of compensating the world. Therefore, Aesop created the Global Philanthropy Program, which formalizes the company's long-standing emphasis on giving back, both through charitable product donations to local causes and through employee volunteering.

Avon

Avon was founded in 1886 by David H. McConnell who, in his travels as a book salesperson, saw the opportunity to sell fragrances in a new business model. Believing in the power of communities and the possibility to empower women, he started hiring women as sales representatives. With the mission to celebrate women's power to make a beautiful and positive impact in the world, the company nowadays sells skincare, color cosmetics, fragrances, and personal care products.

Avon products are sold primarily to women, through women. The company has more than five million representatives in more than 55 countries and supports women's empowerment entrepreneurship and wellbeing. In 2019, the company was recognized as the first global beauty company to end animal testing everywhere it operates in the world. To date, Avon has donated over USD 1 billion to women's causes.

Natura &Co integration

Managing the new structure of four brands is Natura &Co's main challenge today. Natura has had a strategy of integrating the companies without losing the independency and specific characteristics of each brand. For this reason, an internal transformation team has been created to analyze what can be centralized within the four brands, aiming to reduce costs and make operations more efficient. At the same time, the team decides what must operate independently, so they do not interfere in the specificities of each brand. The transformation team also promotes initiatives to encourage knowledge transfer between the brands — people from different departments and brands are connected to make sure they can work together and find synergies. These connections may be ad hoc associations, through workshops to share best practices and main challenges; or permanent, through formal workstreams that are strategically monitored by the group. Additionally, knowledge transfer is also promoted in periodic meetings to share best practices and results.

But integration has not been performed in the same way across companies. For example, integrating Aesop and The Body Shop was easier than integrating Avon. The first two acquired organizations had fewer synergies with Natura, as the companies operated in different geographies, with different sales models, business models, and positioning. However, Avon's integration was harder because operational synergies were necessary. Consequently, they had to connect factories and distribution centers and create a new hierarchical structure within the brands to make the integration faster and easier.

Another possible barrier to the integration of Avon and Natura is the fact that the two companies are at different levels of sustainability. For example, Avon is highly connected to Natura's business model when it comes to the social aspect, as the company has a very strong appeal for female empowerment. In contrast, in the environmental aspect, Avon is still far behind compared to Natura. Thus, there is still much to be done to really integrate the two companies.

Next steps

As Natura &Co was set to enter 2020 with great expectations and even greater challenges, John was considering what to do with his presentation. He knew that with the recent acquisition of Avon, the group had delineated its primary objectives as follows:

- Invest more in the digital, primarily e-commerce and social selling.
- Explore the omnichannel strategy globally.
- Finish The Body Shop's integration to the group and revitalization of the brand.
- Expand sales in the USA (The Body Shop) and China (Aesop).
- Use Avon's platform and infrastructure to grow Natura's brand internationally.
- Revise Avon's portfolio and launch the 'new brand' campaign.
- Capture Avon's cost and revenue synergies — around USD 400 million.

Aware that the acquisition strategy chosen by Natura &Co to expand internationally could prove very fruitful in the future, albeit with some risk in terms of execution, John was wracking his brain trying to decide whether he should go against Max in the morning presentation or not. Disregarding the possible consequences of an insubordinate action, what in fact would be the best strategy for Natura &Co? Should the group seize the momentum of the recent acquisitions and progress the internationalization of Natura's brand or 'digest' the acquisitions first, focusing on delivering all the promised integrations and synergies? Could they handle doing everything at once or was it too much? If they waited until after all integration and synergies were completed, would they be missing out on important opportunities and timing?

NOTES

1. Information retrieved from the official websites of the companies: the official website of Natura &Co is https://naturaeco.com/ (retrieved on February 5, 2020); the official website of Natura (Brazil) is https://www.naturabrasil.com/ (retrieved on February 5, 2020); and the website of Avon Worldwide is https://www.avonworldwide.com/ (retrieved on February 5, 2020).
2. Natura &Co. 2019 Report, retrieved from https://www.naturaeco.com/annual-report-2019/ on February 5, 2020.
3. Natura &Co. 2018 Report, retrieved from https://mz-filemanager.s3.amazonaws.com/9e61d5ff-4641-4ec3-97a5-3595f938bb75/central-de-resultadoscentral-de-downloadskit-do-investidor/09f8c09b827e74014d56b080cf4e97525bfb169eb8ae2825513c627c976f955d/4q18_conference_call_presentation.pdf on February 5, 2020.
4. Natura 2018 Report, retrieved from https://static.rede.natura.net/html/2019/a-natura/pdf/relatorio_anual_natura_2018.pdf on February 5, 2020.
5. Natura &Co Investor Day, retrieved from https://ri.naturaeco.com/pt-br/naturaco-holding-s-a/apresentacoes/ on August 5, 2020.

Teaching Notes

ABSTRACT

This teaching case explores a unique international trajectory of an emerging market multinational in the cosmetics, fragrances, and toiletries industry. Natura &Co presents two very different internationalization strategies in two distinct moments: the first decisions seem to follow the gradual and incremental model described as the Uppsala model; later on, the company moves toward a more daring approach, explained by the springboard perspective, as it enters a series of large international acquisitions. The case is originally designed for disciplines of international business and international strategy at the graduate level and explores the above-mentioned theories, internationalization motives, and entry modes.

Keywords: teaching case; internationalization strategy; EMNE; Uppsala model; springboard perspective.

RESUMO

Este caso de ensino explora a trajetória internacional de uma empresa multinacional de mercado emergente que faz parte da indústria de cosméticos, fragrâncias e produtos de higiene pessoal. A Natura &Co apresenta duas estratégias de internacionalização distintas em duas fases do seu processo de internacionalização: as primeiras decisões parecem seguir o modelo gradual e incremental descrito como o modelo de Uppsala; mais tarde, a empresa caminha para uma abordagem mais arriscada, explicada pela perspectiva do trampolim, ao iniciar uma série de grandes aquisições internacionais. O caso é originalmente projetado para disciplinas de negócios internacionais e estratégia internacional em nível de pós-graduação e explora as teorias acima mencionadas, bem como os motivos de internacionalização e modos de entrada seguidos pela empresa.

Palavras-chave: caso de ensino; estratégia de internacionalização; EMNE; modelo de Uppsala; perspectiva do trampolim.

CASE SYNOPSIS

The teaching case presents the international trajectory of Natura, an emerging market multinational in the cosmetics, fragrances, and toiletries industry. Founded in late 1960s, the company began a process of slow and incremental internationalization by exporting its products to countries physically or culturally close to its home country, Brazil. In the 2010s, the strategy shifted toward a more challenging and riskier approach. The company began acquiring other companies and brands in the cosmetics market, such as The Body Shop and Aesop, and even acquired its biggest competitor in the Latin-American market (Avon), to become the entity now known as Natura &Co. Those recent moves served the purpose of accelerating its global presence and seizing the synergies and complementary resources to achieve stable growth. Besides exploring several aspects of the industry, as well as Natura's company history and main characteristics, the case poses the dilemma of whether Natura &Co can handle its recent acquisitions and continue to thrive in the global arena.

PURPOSE OF THE CASE

As with any business teaching case, the purpose is to give students the opportunity to put themselves in the shoes of the protagonist, reflect on the issues being discussed inductively, and have the opportunity to analyze the internationalization process of a large company. Students should be able to analyze the main drivers of internationalization: foreign markets selection, entry mode choice, motives for internationalization, and the strategies used to accelerate the internationalization process.

TARGET AUDIENCE

This teaching case was designed for graduate courses in international business/international strategy.

SOURCES OF INFORMATION

This teaching case was based on both primary and secondary sources of information. Being publicly traded, not to mention being the largest cosmetics company in Brazil, with global relevance, both economically and for the consumer markets, plenty of information is available from Natura's official websites, its investor relations website, as well as a plethora of academic and non-academic articles and pieces. Additionally, we conducted in-depth personal interviews with executives from all three acquired brands (one from each) as well as with one of Natura's founders, Mr. Pedro Passos. All the material gathered (which has been triangulated, reconciled, organized, and adapted for teaching purposes) is listed at the end of this document.

SUGGESTED TEACHING PLAN

Assignment questions

1. What do you think was the rationale behind Natura's selection of market and entry mode during the company's first internationalization phase (1980s-2000s)? Is that a common rationale?
2. What do you think were the main drivers of Natura's first and second phases of internationalization?
3. How can a MNE from an emerging market achieve visibility, competitiveness, and global leadership?
4. What would you do if you were in John's situation? Which strategy is currently the most suitable for the group? Accelerate the internationalization or execute the required integration before taking another expansion step?

Discussion plan and analysis

This teaching plan requires students to read the case in advance, prepare, and participate in a two-hour session.

Suggested class time allocation is as follows:

- Kick off session and split class into small groups of 4-5 students (5 minutes)
- Discussion of assignment questions in small groups (25 minutes)
- Case introduction (20 minutes)
- Analysis of the case (about 50 minutes)
- Closure (about 20 minutes)

Introduction

As an introduction to the case and warm-up for discussion, a case recap is recommended. The instructor can prompt questions about the case and organize information in a timeline or just list the events on the board as the students recall the main events of the case.

1982: Outsourced distributor in Chile

1983: Development of Numina brand — Florida and Portugal

1988: Local distributor in Bolivia

1992: Operation in Peru

1994: Partnership with a local distributor in Argentina

2005: Opening of Paris store in France

2005: Establishment of the hybrid strategy in Mexico

2007: Operation in Venezuela and Colombia

2013: Acquisition of Aesop

2016: Opening of New York store, the first Natura store in the US

2017: Acquisition of The Body Shop

2019: Acquisition of Avon

Several introduction questions could be posed by the instructor with the same intent: (1) What was Natura's internationalization trajectory in terms of market/country selection? (2) What entry modes did Natura choose?

This should last no longer than 20 minutes, after which the instructor should proceed to the analysis of the case by using the transition question TQ1. The transition questions are used to introduce — by relating to the case at hand — the assignment question that follows.

> **TQ1:** Now that we have reviewed the company's internationalization trajectory, let's think about some of their strategic international moves. Do you think their earliest internationalization strategy was the same as the more recent approach? What has changed?

Analysis of the case

> **Discussion question 1:** What do you think was the rationale behind market selection and entry mode selection during Natura's first internationalization phase (1980s-2000s)? Is that a common rationale?

The instructor can use the following sequence of slides to help students arrive, inductively, at the concepts of the Uppsala model of the Nordic school of internationalization.

Researchers at the Uppsala University in Sweden (hence the name of the model) analyzed Swedish firms' patterns of internationalization and noticed that they developed their international operations in small steps rather than by making large foreign production investments at single points in time. Firms typically started exporting to a country via an agent, then later established a sales subsidiary, and eventually (in some cases) began production in the host country. Also, they started with neighboring countries that they felt more comfortable with, and slowly moved toward more distant countries, both geographically, culturally, and economically speaking, in a concept dubbed 'psychic distance.'

Therefore, based on the core idea that internationalization of firms is a process in which the firm gradually increases its international involvement, Johanson and Vahlne (1977) propose a model that focuses on incremental knowledge acquisition and exposure to risk. The Uppsala model focuses on the development of the individual firm and particularly on its gradual acquisition, integration, use of knowledge about foreign markets and operations, and its successively increasing commitment to foreign markets. The model assumes firms always seek to increase their long-term profit and maintain a low level of risk. Market commitment is assumed to be composed of two factors: the amount of resources committed and the degree of commitment. The higher the degree of commitment, the more the resources are integrated with other parts of the firm and their value derived from integrated activities.

In the case of Natura, the company started following an internationalization path as proposed by the Uppsala model: starting in its domestic market (more knowledge, thus less risk), it began its internationalization process through closer countries in terms of psychic distance (Latin American countries and with low commitment entry modes — exporting). Only after a while did it move to more psychically distant countries.

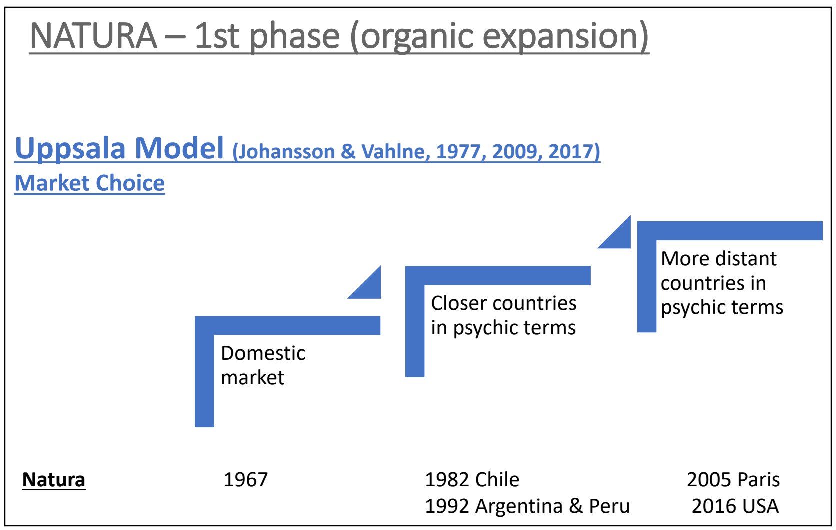
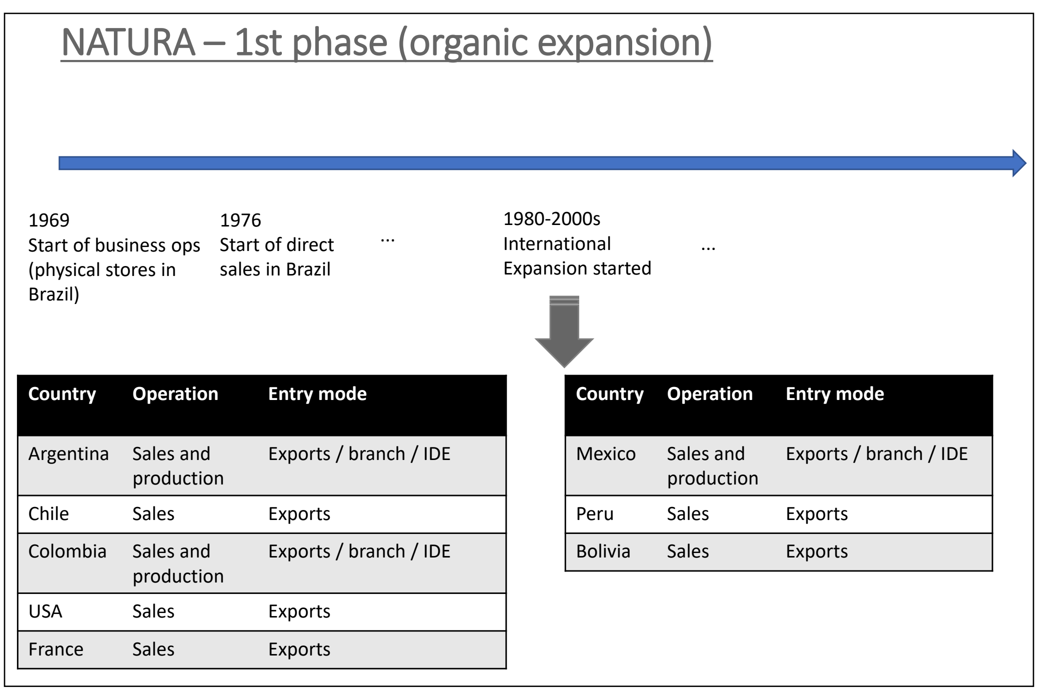


Figure 1. Natura 1st phase's strategy.



Country	Operation	Entry mode
Argentina	Sales and production	Exports / branch / IDE
Chile	Sales	Exports
Colombia	Sales and production	Exports / branch / IDE
USA	Sales	Exports
France	Sales	Exports

Country	Operation	Entry mode
Mexico	Sales and production	Exports / branch / IDE
Peru	Sales	Exports
Bolivia	Sales	Exports

Figure 2. Natura 1st phase's strategy.

Moreover, the instructor should also shed light on the company's entry mode choices. Starting with less commitment-demanding ones, the first twenty years of Natura's internationalization took place mainly through exports and local distributors. Only after this initial experience did the company starts to take bigger and more challenging steps, which is also in accordance with the Uppsala model.

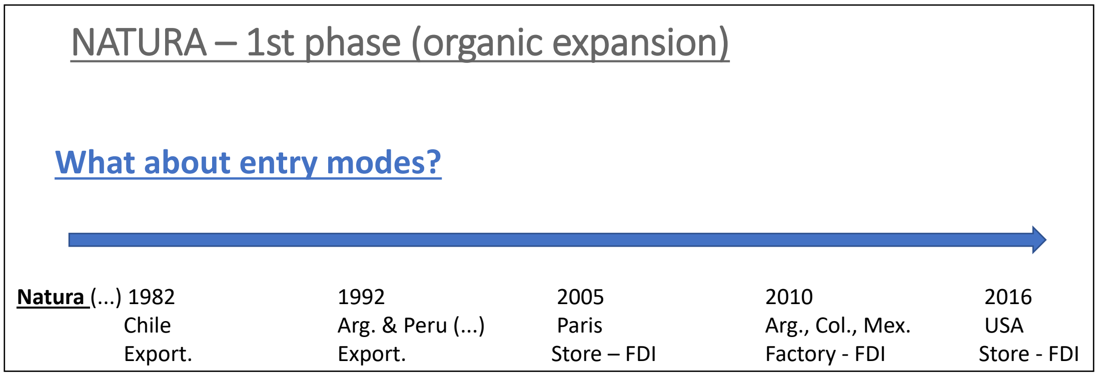


Figure 3. Natura 1st phase's entry modes.

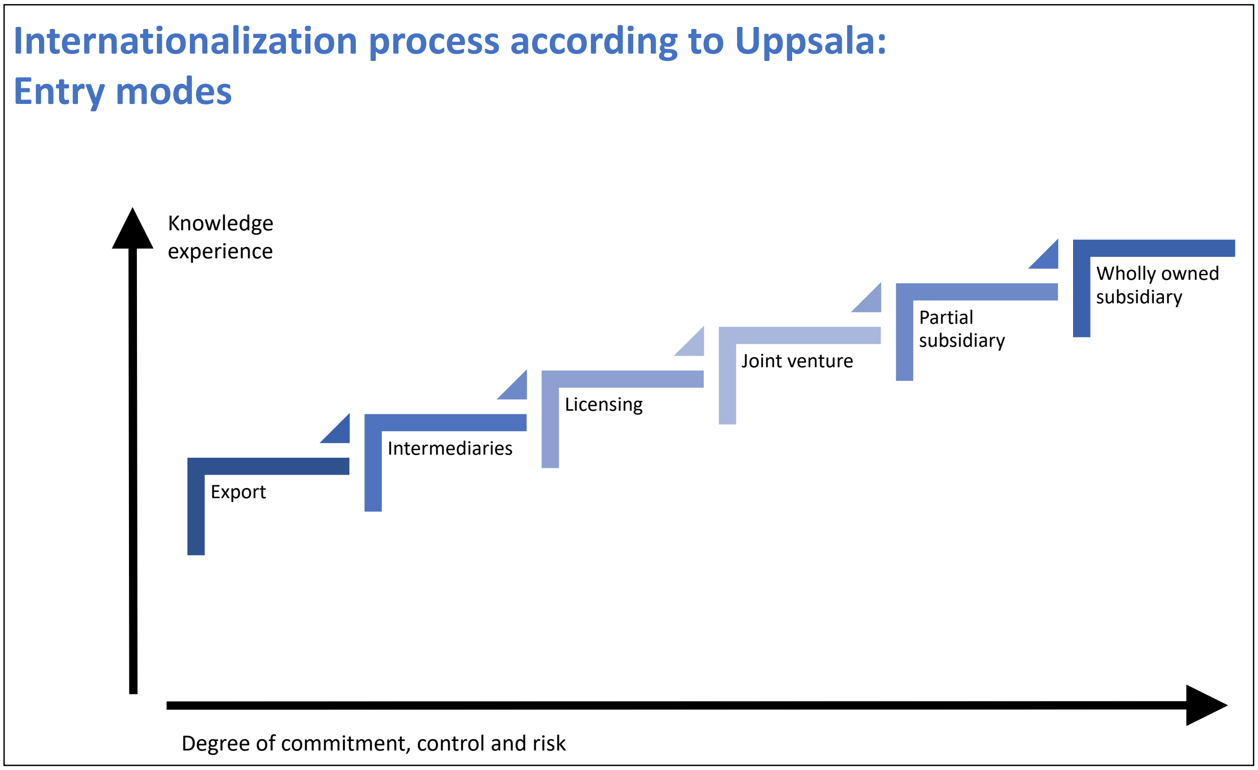


Figure 4. Uppsala's entry modes.

The instructor can also debate the limitations of the theory/criticism received over the years, namely (a) failing to consider learning/acquiring resources through partners (revised in their revisited model of 2009) or acquisitions; (b) failing to consider the personal characteristics of decision-making/entrepreneur in entry mode and market selection decisions; (c) failing to consider specific contexts for which the theory might not apply, focusing only on common traits; and finally, (d) like most theories, having been developed by researchers from developed countries, based and tested on companies from developed countries.

TQ2: What about the period post-2000? What changed in Natura's international expansion strategy?

Discussion question 2: What do you think were the main drivers of Natura's first and second phases of internationalization?

The instructor should start this section by recapping the second phase of Natura's internationalization (from 2000 on) and organizing students' comments on the board (a suggestion of a timeline is given in the slides at the end of this section). The instructor should then proceed to stimulate the debate of the TQ2 to finally arrive at the discussion question of (a) what Natura's motivations were and (b) what are the possible motivations of a firm to internationalize. A company may have several motivations to internationalize (Slide 2):

1. For growth/expansion of sales (to acquire new customers in new markets)
2. For higher margins and profits in less competitive environments
3. To acquire new ideas, experience/knowledge in more demanding markets
4. To serve internationalized customers (i.e., follow the client)
5. To diversify its global sourcing sources
6. To access production factors with lower cost or of higher value (e.g., cost of capital, technology, labor force, etc.)
7. To develop economies of scale in supplies, production, marketing, and R&D
8. To minimize competitive risk (defensive internationalization to stop international competitors)
9. To invest in an advantageous relationship with a foreign partner

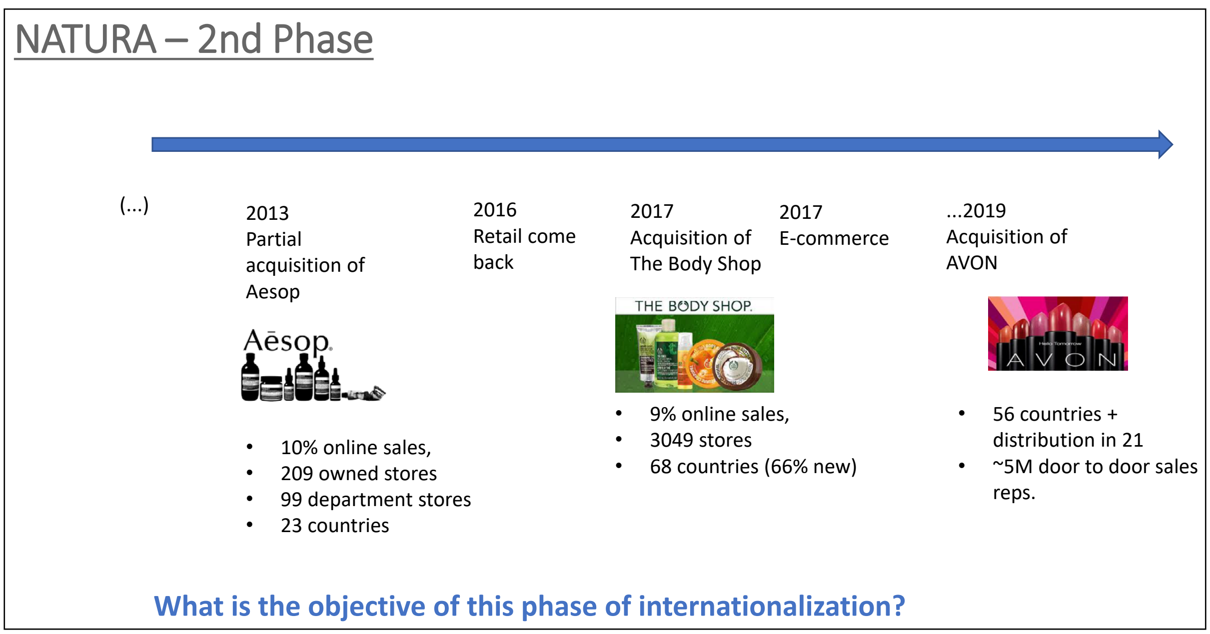


Figure 5. Natura 2nd phase's strategy.

Figure 6. Motivations for internationalization.

In the case of Natura, in its first phase it was probably seeking motivation #1, sales growth, common to organic growth stages. But later on, in the second phase, there might have been additional drivers of such aggressive moves, such as economies of scale, knowledge acquisition, and minimizing competitive risk.

TQ3. But isn't it unusual to make such aggressive moves?

Discussion question 3: How can a MNE from an emerging market achieve such visibility, competitiveness, and global leadership?

Ramamurti (2012) explains that even though some researchers consider the international expansion of EMNEs fundamentally unsustainable, these organizations possess competitive advantages that are firm-specific rather than country-specific. Examples of these advantages are the ability to (a) gather insights about consumer needs; (b) deliver products with ultra-low cost production prices; (c) come up with new products quickly and cheaply; (d) operate in adverse environments; (e) access natural resources and markets; and (f) take the lead in new industries to become first-movers. Therefore, EMNEs use internationalization to exploit these competitive advantages and acquire additional competitive advantages for exploitation at home and abroad.

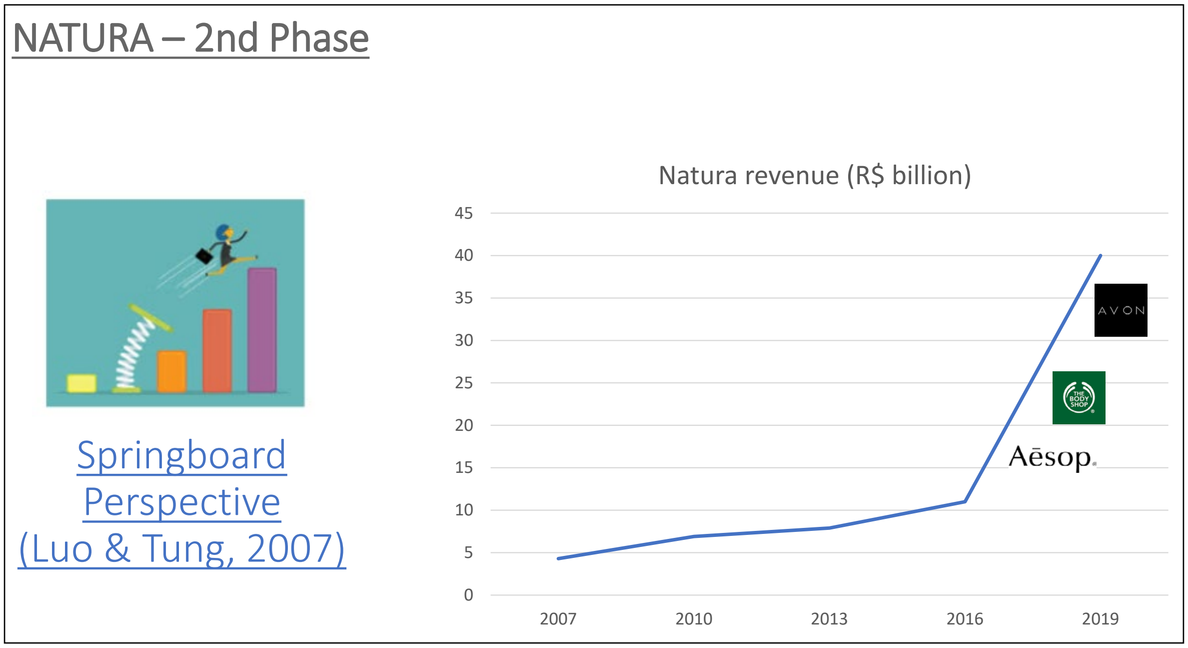


Figure 7. Natura 2nd phase's revenue.

Based on this logic, Luo and Tung (2007) present the springboard perspective, an approach that looks at the unique motives, processes, and behaviors of the international expansion of emerging market multinational enterprises (EMNES). EMNEs systematically and recursively use international expansion as a springboard to acquire necessary critical resources to compete more effectively against its global rivals at home and abroad and to reduce their vulnerability to institutional and home market constraints. These efforts are systematic and are designed to spur growth as a competitive strategy in the global market.

They are also recurrent and strongly integrated with domestic activities. Additionally, they introduce the 'upward spiral' concept, which suggests that EMNEs grow through a deliberate self-improving, positively reinforcing, multi-stage process that consolidates and fortifies the essential capabilities needed in subsequent global competition. Through this spiral, EMNEs can become increasingly powerful on the global stage (Luo & Tung, 2018).

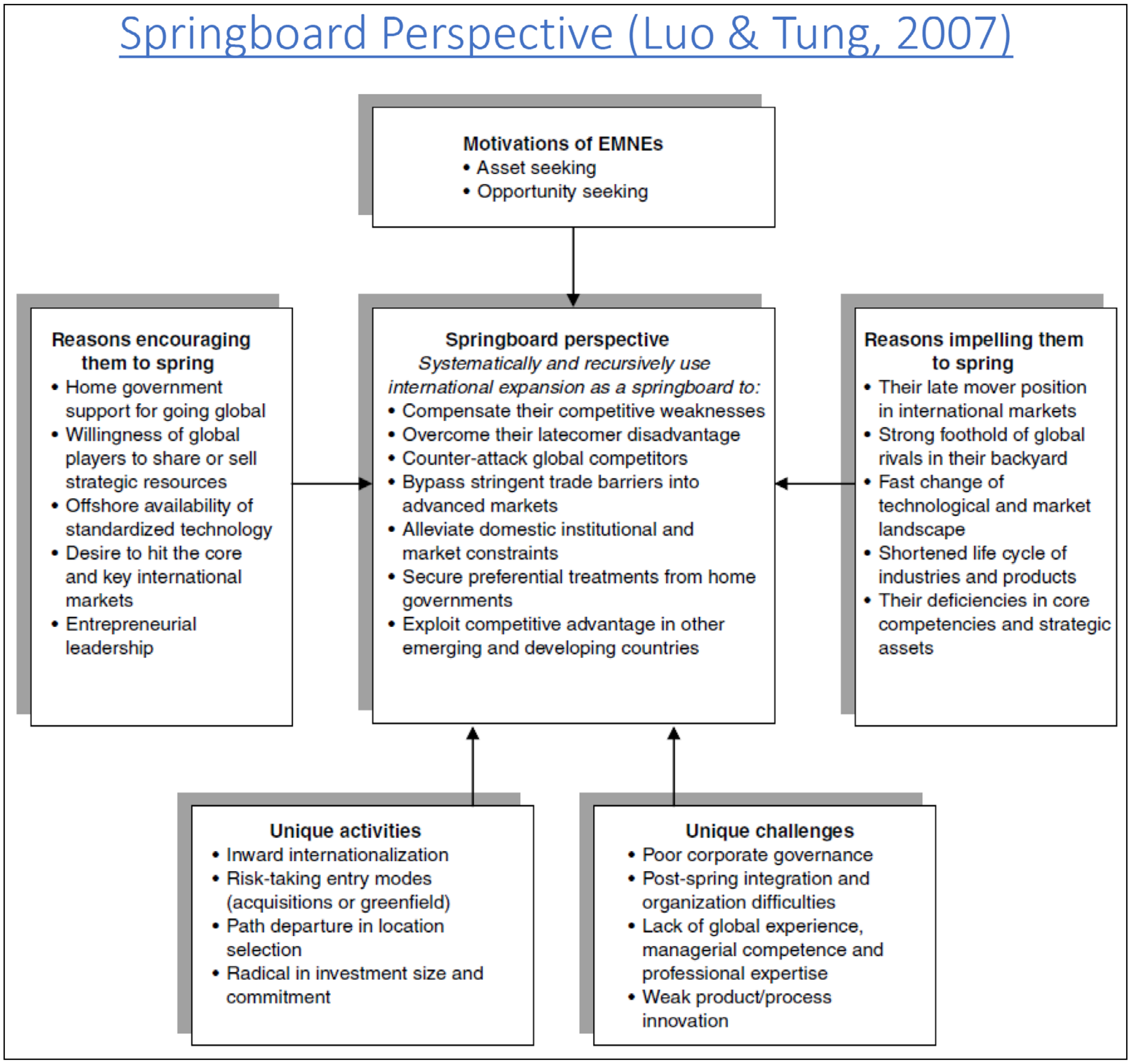


Figure 8. The springboard perspective.

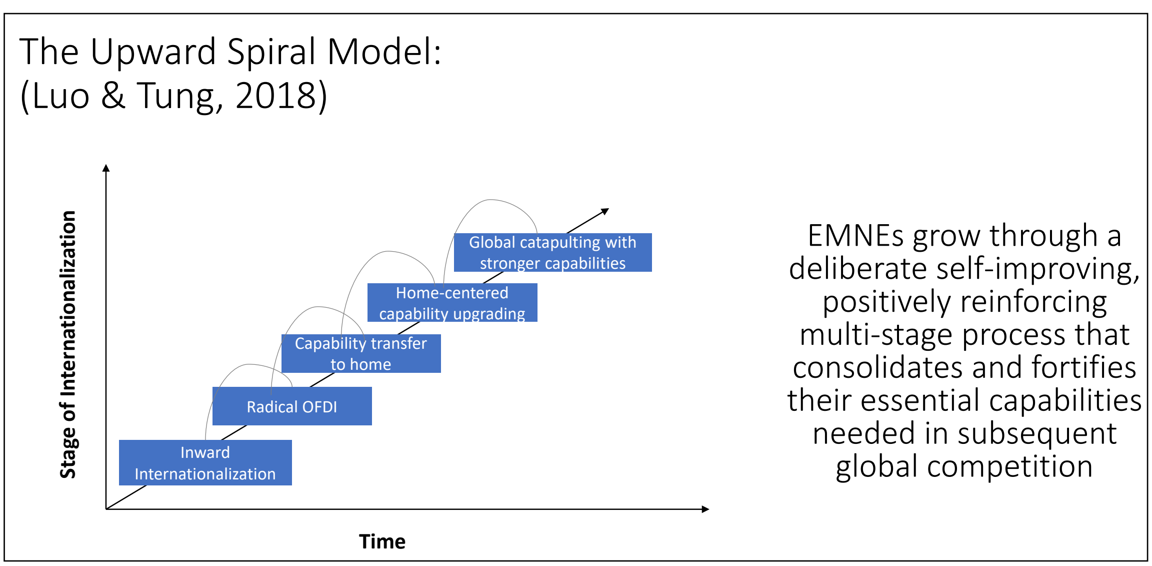


Figure 9. The Upward spiral model.

However, such springboard activities also bring some risks and challenges. The instructor can debate with the students the main difficulties that Natura has been currently facing in terms of (a) integrating the four brands; (b) obtaining the necessary synergies; and (c) achieving the expected returns after those large investments. Has Natura managed to 're-catapult' globally and become a global reference with stronger capabilities, in accordance with what Luo and Tung (2007) suggested in the springboard perspective?

TQ4: What about the future?

Discussion question 4: What would you do if you were in John's situation? Which strategy is the most suitable for the group now — to accelerate the internationalization or to calmly implement the required integration before taking another expansion step?

The instructor now should guide the students to think strategically about Natura's future and put themselves in John's position. What challenges can Natura &Co expect after its springboard movement? What are the strategic options?

Suggested slides:

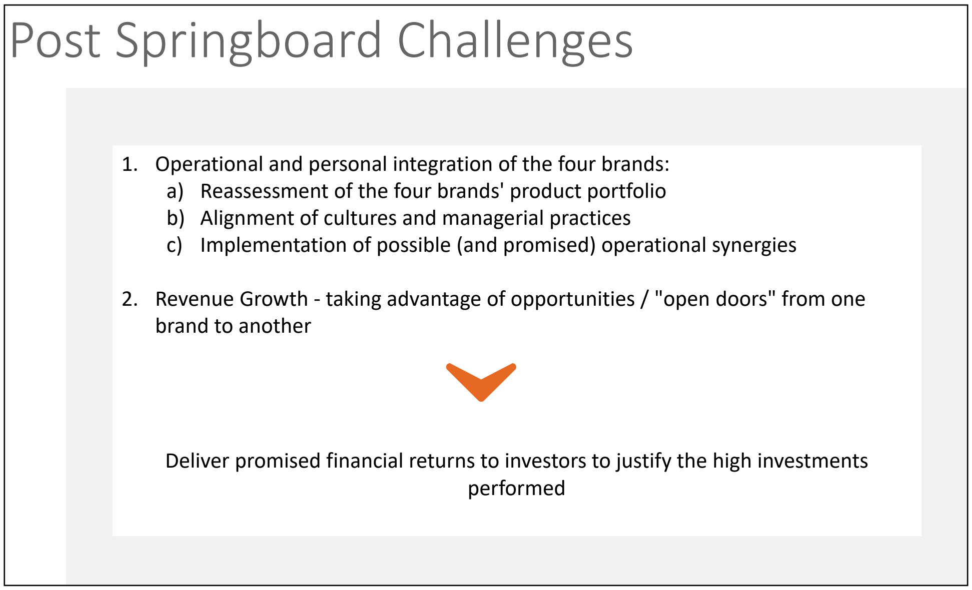


Figure 10. Post springboard challenges.

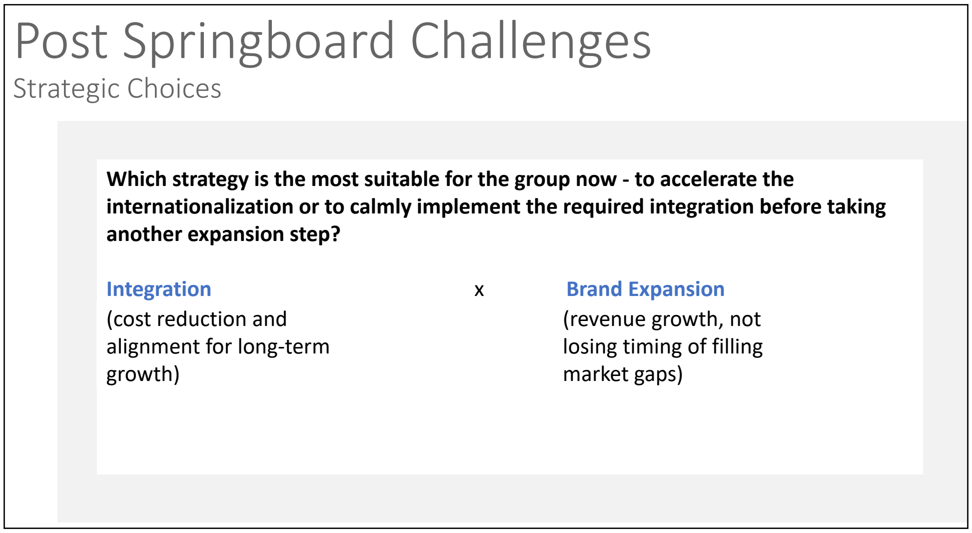


Figure 11. Strategic choices.

There is no right and wrong answer for this question. The objective here is to help students identify the advantages and disadvantages of each possible strategy. The instructor should write down arguments in favor of each option, or in the form of advantages and disadvantages (as below), as students express their points of view. Examples:

Main advantages of accelerated internationalization:

- Rapid conquest of markets where Natura does not yet operate but where other brands are already present. Instructor may encourage students to apply here some of the concepts learned during the session:
  - Which markets are those and which ones should Natura target first?
  - How should they enter each of those markets? Franchising? Door-to-door direct sales? Online sales? Using partners?
- High additional revenue potential, with relatively low investments and costs ('low-hanging fruit'). Natura must explore the other brands' successful forays into international markets to lessen its liability of outsidership in those markets.
- Faster recover of money invested in the acquisitions.

Depending on the time available and the depth required, the instructor can further develop this discussion of potential opportunities with a group project for after class.

Main disadvantages of accelerated internationalization:

- Risk of not being able to promote the necessary integrations and synergies.
- Risk of negative brand exposure in some countries if Natura does not manage to make the required strategic planning first.
- Potential lack of credibility from suppliers and financial investors on its integration capacity.

Figure 12. Pros and cons of accelerating internationalization.

Students could also argue Natura should pursue both strategies, that is, with the commercial team focused on expanding and the operational team focused on integrating. Note that this alternative would involve deeper pockets from the company and a double focus, which could be even more challenging.

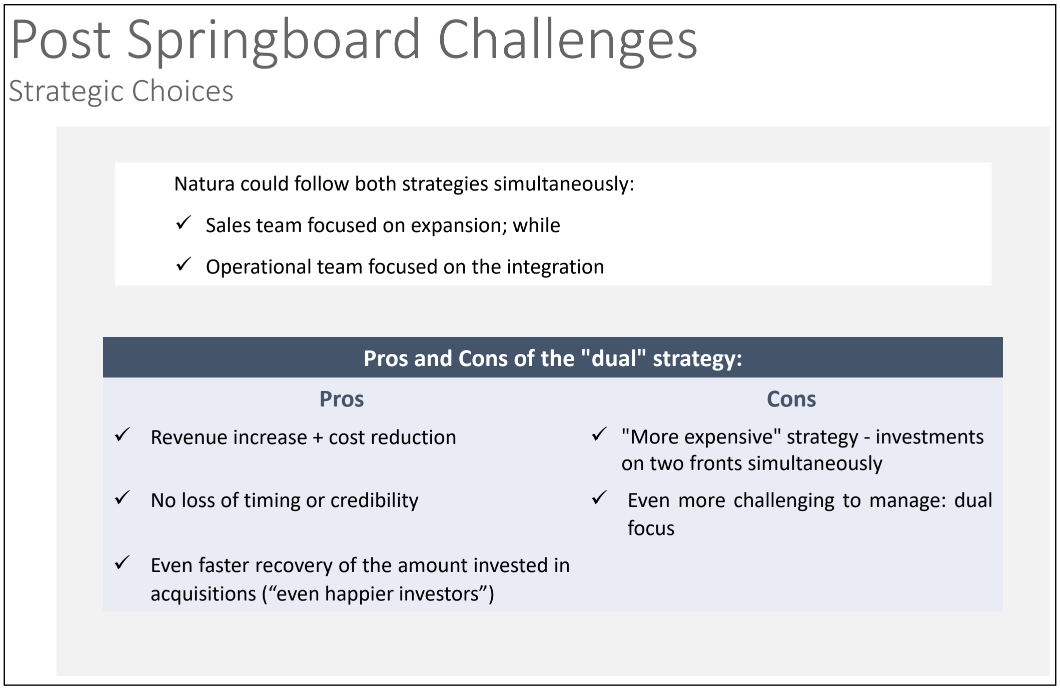


Figure 13. Pros and cons of a dual strategy.

Closure

For closure, the instructor could ask the students to think of other EM corporations that have adopted strategies along the lines of the springboard perspective. Some examples are Geely (and the acquisition of Volvo); Lenovo (and the acquisition of IBM’s PC business); and Ambev/Inbev (and the acquisition of Anheuser-Busch). What happened after those acquisitions?

Another suggestion for ending the case would be to take a final poll of the students and asking, after the discussion, what they would do in John’s shoes.

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1st author: conceptualization (equal); data curation (equal); formal analysis (equal); validation (equal).
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3rd author: data curation (equal); project administration (equal); supervision (equal); validation (equal); writing-review & editing (equal).
4th author: data curation (equal); formal analysis (equal); investigation (equal); writing-original draft (equal).

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