

INTERNATIONALIZATION STRATEGIES OF THE BRAZILIAN MEAT AGRIBUSINESS SECTOR: EXPORTS OR DIRECT INVESTMENT ABROAD?

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ABSTRACT

The article analyzes the internationalization strategies of the four largest Brazilian companies in the meat (beef, pork and poultry) agribusiness sector, by considering the comparative and competitive advantages of the country and the companies. JBS, Marfrig, Sadia and Perdigão were studied, of which the last two merged in May 2009, forming Brasil Foods. The authors looked into what led these companies to start investing abroad directly, as from 2005, as a complement to their exports, the preferred strategy for placing products in foreign markets. The research method used was the multiple case study, drawing on primary data (interviews, corporate annual reports, financial statements, press releases and shareholder information) and secondary data (theses, dissertations, academic articles, reports in newspapers and business journals), using bibliographic and documentary research. Everything was analyzed in the light of international business and strategy theories. The results show that exports still predominate and that investing directly abroad was, in principle, a reactive strategy to sanitary barriers against Brazilian products. However, the

acquisition of companies in restriction-free countries has increased as part of a forward-looking strategy for gaining access to new markets and strengthening brands.

Key-words: Agribusiness. Internationalization. Strategy.

ESTRATÉGIAS DE INTERNACIONALIZAÇÃO DO SETOR AGROINDUSTRIAL BRASILEIRO DE CARNES: EXPORTAÇÃO OU INVESTIMENTO DIRETO NO EXTERIOR?

RESUMO

O artigo analisa as estratégias de internacionalização das quatro maiores empresas brasileiras do setor agroindustrial de carnes (bovina, suína e de aves), considerando as vantagens comparativas e competitivas do país e das empresas. Foram estudadas JBS, Marfrig, Sadia e Perdigão, as duas últimas em processo de fusão, desde maio de 2009, constituindo a Brasil Foods. Foram pesquisadas condições que levaram estas empresas a iniciar investimentos diretos no exterior (IDE), a partir de 2005, como complemento às exportações, estratégia preferencial para a colocação de produtos no exterior. O método de pesquisa foi o estudo de caso múltiplo, valendo-se de dados primários (entrevistas, relatórios anuais das empresas, demonstrações financeiras, *press-releases* e informações aos acionistas) e secundários (teses, dissertações, artigos acadêmicos, reportagens em jornais e revistas de negócios), utilizando a pesquisa bibliográfica e documental, e que foram analisados à luz das teorias de negócios internacionais e de estratégia. Os resultados mostram que as exportações ainda predominam, e que o IDE foi, a princípio, uma estratégia reativa a barreiras sanitárias aos produtos brasileiros. Mas as aquisições de empresas, em países livres de restrições, têm aumentado, como estratégia prospectiva para acessar novos mercados e fortalecer a marca.

Palavras-chave: Agroindústria. Internacionalização. Estratégia.

1 INTRODUCTION

The Brazilian agribusiness sector, especially in the production of processed foods from beef, pork and poultry, has enjoyed absolute and comparative advantages, which have become competitive advantages and have ensured the success of exports for many years. This has been the preferred strategy of big business groups and constitutes the first stage in the process of internationalization.

Until 1986, Brazil was an importer of beef. In the 1990s, the herd increased by five thousand head a year, on average, and at a relatively low cost. As a result, exports grew by more than 25 percent a year from 2000 to 2007. Since 2004, the country has been the leading exporter, achieving a 29 percent market share in 2007 (Bell & Ross, 2008).

Brazil has the largest beef cattle herd in the world for commercial purposes. The technical and economic advantages of Brazilian livestock production to some extent offset the drawbacks of low productivity. The country's comparative advantages, which have become the competitive advantages of Brazilian beef (the lowest production cost in the world due to cheap and widely available labor, huge areas of low-cost pasture, a favorable climate and "green cattle", fed exclusively on grass), enable it to offer the international market an animal with special qualities, reared in an environmentally friendly manner and without the consumption of large amounts of grain for feed (Pozzobon, 2008). However, it is still necessary to implement major changes, mainly concerning herd health assurance and the introduction of an effective animal tracking system.

Currently, Brazil is the world's fourth largest beef producer, accounting for 10 percent of all production. Ahead of it are China (27.3 percent), the United States (18.2 percent) and the European Union (17.5 percent). Together, these areas produce 70 percent of the poultry, 83 percent of the hogs and 60 percent of the cattle in the world. However, Brazil had the highest production growth rates between 2004 and 2008 for all three products (Pigatto & Santini, 2009).

The country also stands out in the production and export of pork and chicken. Brazil is the third largest chicken producer, with 10.3 million tons in 2007, and the largest exporter of this product. In 2007, the country exported 3.2 million tons of chicken meat, or 44.1 percent of world exports of this product.

Brazilian pork production in 2007 reached 3 million tons, of which 600,000 tons were exported, accounting for 11 percent of total world exports of pork in 2007 (Marfrig, 2009).

The European Union, China, the USA and Brazil are the main players in the meat market, accounting for 66 percent of total world consumption. In the specific case of cattle, in 2008, the Brazilian herd of 200 million head produced about 9.8 million tons of meat, making the country the second largest beef producer in the world, second only to the United States. Although the Brazilian herd is bigger in numbers than the American herd, US production is 20 percent greater than Brazil's, thanks to greater productivity. Brazil is only outnumbered by India, but as the latter does not exploit its cattle commercially, due to religious reasons, Brazil has the world's largest commercial herd (Schlesinger, 2008).

Investment in research and production in the Brazilian agriculture and livestock sector have helped to raise productivity, whether through genetic improvement or by the system of confinement. However, the trend is to adopt the confinement system only in the final stage of rearing animals, especially in the off-season period. The advantages of this system are reducing the age at which the animal can be slaughtered, accelerating capital turnover, with a faster return on investments in fattening, and reducing the time cold-stores remain idle in the off-season period (Pigatto & Santini, 2009).

Brazil, with its quality soil, cheap labor, large tracts of land and excellent climate, is a country with exceptional characteristics for agriculture and livestock farming concerns. However, in recent years, the biggest companies in the sector have been making large direct investments abroad, through acquisitions.

However, international trade means that the comparative advantages of a country as a result of its natural conditions, such as the abundance of a given production factor, are no longer sufficient for competing globally. The competitiveness of a country depends increasingly on the capacity of its companies to innovate in terms of products, processes or services.

The aim of this paper is to analyze the changes in the internationalization strategy of four companies essentially dedicated to exporting (JBS, Marfrig, Perdigão and Sadia) and the reasons that led them to purchase enterprises abroad, especially from 2005 onward, as a complement to their exports. The proposal of this study is that the introduction of sanitary barriers against

Brazilian meat in the largest buyer markets triggered this reaction. By acquiring assets abroad, in countries that are not subject to such restrictions, these barriers were overcome.

2 THEORETICAL FRAME OF REFERENCE

2.1 ABSOLUTE COMPARATIVE AND COMPETITIVE ADVANTAGES

Adam Smith, in *The Wealth of Nations*, 1776, states that a country has an absolute advantage over another in the production of given goods if it is more efficient in their production, i.e., if it manages to produce a greater amount for each unit of production factor. For Smith, international trade was based on absolute differences of production cost and the wealth of nations should ensue from the growth of labor productivity. Therefore, a country would export the goods it could make more cheaply than others did and would import those whose production cost was higher. Smith's work became known as the Theory of Absolute Advantages (Bado, 2004).

David Ricardo, on the other hand, showed that each country would be led to specialize not in products in which it had an absolute advantage, but in those regarding which it enjoyed a greater relative advantage. For Ricardo, all countries would benefit from international trade, provided they specialized in the production of goods in which they were relatively more efficient, i.e., those in regarding which they could benefit from comparative advantages, while acquiring those regarding which they were relatively less efficient.

The traditional theory of international trade emphasizes the allocation of production factors (labor, natural resources and capital) as determinants of international trade. The exports from a region presumably incorporate the services of relatively abundant factors, and its imports incorporate the services of relatively scarce factors. Dissatisfied with the previous concepts, the so-called new theory of international trade sought to explain the patterns of trade and competitiveness by examining the strategic interactions between companies and governments (Nakano, 1994).

Currently, there is talk of a country's competitive advantages in the production of certain goods, meaning that it has lower costs or better quality than its competitors in the production of these goods. These advantages derive

from constructed factors that are simply not available to everyone. It might be a low-cost physical distribution system, the ownership of innovation, a highly efficient production process, the use of a superior logistics structure, the use of high quality raw materials, the availability of qualified professionals, an efficient system for positioning the product, or a product of clearly better quality.

The competitiveness of a country depends on its industry's capacity to innovate and improve. Companies gain a position of advantage over competitors because of pressures and challenges. For Porter (1990), competitive advantages are built. They are not a natural phenomenon, neither are they determined. Comparative advantages must be transformed into competitive advantage, generated and sustained by means of a highly localized process. Companies adopt different strategies throughout their existence, from the forward-looking strategy, which consists in innovating, taking risks, seeking new opportunities and growing, to the reactive strategy, which in fact is not planned, but merely a timely response to some restriction or environmental opportunity that suddenly arises in order to meet the needs of the moment (Miles & Snow, 1978).

Currently, in their global strategies, multinationals exploit both the comparative advantages of their countries and their own specific competitive advantages for competing in international markets (Nakano, 1994). These are the country-specific advantages (CSA) and firm-specific advantages (FSA), which Rugman (1981) combines into a matrix for analyzing and explaining the competitive advantages of firms that internationalize.

Competitive advantage results from the magnitude or ownership of assets, but increasingly it relates to firms' ability to mobilize knowledge, technology skills and experience so as to create new products, services and forms of distribution. International acquisitions bring with them knowledge and technology, but sustaining a competitive advantage over time demands innovation in processes, products, markets and organization forms.

The fact that Brazil combines excellent conditions for producing meat in terms of natural resources, climate and land availability no longer provides it with a distinguishing feature. Today, competitive advantages are what truly influences growth - investments, market positioning and export capacity.

2.2 THE INTERNATIONALIZATION OF THE MEAT SEGMENT OF BRAZIL'S AGRIBUSINESS

In 2000, Brazil was the world's sixth largest beef exporter. In 2003, it moved up to second place, and since 2004 has consolidated its position as the world's largest exporter, with a 23 percent market share, followed by Australia with 19 percent (USDA, 2009). However, in 2007, Brazilian exports reached 29 percent of world exports, owing to several situational factors, such as the incidence of mad cow disease a decade earlier, a reduction in the American cattle herd, the high cost of beef production in Europe and the Australian drought. In late 2008, 18 meat processing companies accounted for 98 percent of all Brazilian exports, the five largest (JBS, Bertin, Minerva, Marfrig and Independência) controlling 50 percent of the export market (Caleman, Cunha & Alcantara, 2009).

From 1996 to 2008, there was a significant quantitative leap and exports grew by 800 percent, to \$5.3 billion in 2008. In this period, Brazil's market share rose from 6.8 percent to 28.4 percent, despite barriers to its products in developed countries. Meanwhile, the US market share fell from 18 percent to 8.8 percent. Of the total exported in 2008, 83 percent refers to fresh meat and 17 percent, to processed meats.

The world trade in meat centers around the European Union and the United States, whose markets, in the late 1990s and early 2000s, suffered a strong impact from mad cow disease and foot and mouth disease. These markets then started being supplied with imported meat and Brazil, taking advantage of its production capacity, became a major provider. However, these buyers resisted the growth of Brazilian exports and started restricting the purchase of Brazilian product from regions with vaccination. The need to overcome the resistance of these countries and of Japan as well meant that in 2005 the meat processing enterprises embarked upon an internationalization process.

The United States has barriers of a technical, non-tariff (lack of health agreements for marketing) and administrative (import licensing requirement) nature, in addition to its tariff barriers. The European Union, on the other hand, imposes sanitary and phytosanitary barriers, relating to the ability to track not

only the cattle individually, but also the exported cuts. It requires the sanitary maturation of the meat, the permanence of the cattle in an approved area for 90 days, and for 40 days on the last property prior to slaughter. Animal health controls are required, such as sero-epidemiological monitoring programs for foot and mouth disease. There are also high import tariffs and restrictions on subsidies (Pigatto & Santini, 2009).

Among the factors that led the major meat processing companies in the country to internationalize and diversify their production was the BNDES (National Bank for Social and Economic Development) decision to finance the so-called "national and international champion companies" for export performance. The appreciated Brazilian currency (the real) and the financial crises that affected meat processors in Argentina, Italy and the United States also had some influence, turning the acquisition of such companies into a very attractive business proposition (AgroBrasConsult, 2010).

The possibility of serving the most demanding markets and with a better return attracted the interest of Brazilian meat processing enterprises, causing them to acquire companies in Australia, the USA and those Latin American and European countries that were free from phytosanitary restrictions. Other advantages are consumer market proximity, knowledge about the distribution channels and dissemination of the company brand (Pigatto & Santini, 2009).

The strategy of the Brazilian companies to gain access to the main world markets was to purchase industries in producing countries whose exports are not faced with resistance (Uruguay, Argentina, Australia), and in large consumer markets (the United States and Europe). As a result, companies can speed up their process of rapprochement with the consumer, buying brands that are already known, while also generating room to import products processed in Brazil via such acquisitions.

Sanitary issues stand in the way of exporting fresh meat to most of the importers, and precisely to those that pay the most for the meat (Urso, 2007). Therefore, Brazilian meat processors found an environment ripe for doing business in Argentina. Initially, JBS bought Swift Armour and Marfrig bought Breeders and Packers.

The secondary objective of the internationalization of Brazilian meat processing industries is to overcome trade barriers imposed by developed countries. The acquisition of plants abroad results in advantages that go beyond access to consumers, with the firms beginning to enjoy the export facilities created by the several free trade agreements that the United States and the European Union maintain around the world (Schlesinger, 2008).

Perdigão, Sadia, Ceval, Chapecó, Aurora, Frangosul and Avipal, which remain independent or were bought by the first two companies or by foreign firms, were responsible for the large transformation in the Brazilian poultry and hog farming sectors. In 1970, production was 217,000 tons, the retail cost of a kilogram of chicken was \$4.05, on average, and consumption per inhabitant per year stood at 2.3 kg (Dalla Costa, 2007).

With the technological innovations and improvements in work organization introduced by the sector firms, poultry production ceased to be a manual activity to become one of the leading industries in technology and production nationwide, while the companies became major exporting industrial conglomerates. In 2004, Brazilian production was 8.4 million tons, 6 million of which were for the domestic market, or 33.5 kg per inhabitant per year. The average retail price per kilogram was less than \$1, and Brazil became the world's largest exporter of the product, overtaking the United States.

Giordano (1995) shows that growth of poultry consumption in Brazil, as compared to consumption of other types of meat, was due to falling prices for chicken vs. pork or beef. This was brought about by technological advances in poultry genetics and improvements in the management of poultry farms. The elements that stand out are innovation tied to integrated systems, which are responsible for the transmission of technology in the field, and the growth of agribusiness efficiency, found throughout the supply chain, from supply sources to the supply of products to end consumers.

The pursuit of lower prices and healthy products with a lower fat content are factors that have driven consumers to opt for poultry meat. This market, previously characterized only by cost leadership strategies, also allows room for the development of products with higher added value and market segmentation.

2.3 THEORIES AND STAGES IN THE PROCESS OF COMPANY INTERNATIONALIZATION

Among the several theories explaining the internationalization of companies, two stand out: the eclectic paradigm of international production or the OLI paradigm (Dunning, 1988; 2001) and the behavioral theory of the Uppsala School (Johanson & Vahlne, 1977). The first states that companies must have ownership (O) advantages, resources that make them competitive in the international market; there should be location (L) advantages in different countries, drawing companies to establish themselves there; and once these factors have been considered, companies must then decide whether it is better to internalize (I- internalization) production in those countries, export their products or license them to a local firm.

The eclectic theory of firm internationalization was largely developed by Dunning, and by Buckley and Casson (1976) and Rugman (1981) as well. It attempts to explain the decision to produce (or not) in a foreign market. Market failures (information and transaction costs, the opportunism of agents and asset specificity) drive a company to prefer direct investment rather than licensing or exporting for entering a foreign market, when it enjoys differential advantages relative to other firms and wants to protect these advantages using its own structure.

According to the behavioral theory, companies expand to countries where the *psychological distance* is smaller, where the culture and environment are similar to their country of origin. This is an incremental process and as they acquire more knowledge of these countries, companies increase their investments, in an *establishment chain*, in the form of sales offices, stores and plants. Lack of knowledge about foreign markets is an obstacle to the development of international operations. Therefore, the theory argues that the internationalization process results from a series of incremental decisions.

According to Dunning (1994), companies internationalize driven by the search for one or more factors: natural resources (*resource seeking*), the market (*market seeking*), productive efficiency (*efficiency seeking*), and strategic assets (*strategic asset seeking*). Companies that use strategies such as resource seeking try to exploit the advantages derived from natural resources at

comparatively lower costs in the target countries. Strategies of the market-seeking type aim to exploit the advantages of neighboring markets from a given target country. Multinationals whose motivation is efficiency seeking try to exploit the advantages of scale and rationalization of production, specialization, regional integration processes between branches, a reduction in transport costs, and progress in infrastructure. Strategic asset seeking looks for a set of competences (including product innovation and distribution channels) that gives the company greater competitive advantages in those markets.

3 METHODOLOGY

The methodology was qualitative in its approach and used the multiple case study as its research method. Case studies were carried out on JBS, Marfrig, Sadia and Perdigão, drawing on primary data (interviews, company annual reports, financial statements, press releases and information available to shareholders on the companies' websites) and secondary information (theses, dissertations, academic articles, reports in newspapers and business journals), by means of bibliographic and documentary research.

The classification of annual reports and other financial information from companies to shareholders as primary data is based on Cooper and Schindler (2003), despite other authors disagreeing.

Primary sources are original pieces of research or raw data without interpretation or comments that represent an opinion or official position. Among these sources are laws, regulations, decisions or judicial standards and most government data, including census and economic and labor data. For someone outside the company, the annual report is seen as a primary source, because it represents the official position of the corporation (Cooper & Schindler, 2003, p. 223).

Only in Sadia were interviews conducted, which may be considered a limitation of this study. However, because they have been prominent on the international scene, Marfrig, JBS and Perdigão have been the subject of several reports since 2009 (*Exame*, 2009; *Época Negócios*, 2009; *Sobeet / Valor*, 2009; *Isto É Dinheiro Rural*, 2009; *Isto É Dinheiro*, 2010; and *Exame*, 2010), which provided relevant information about their internationalization processes. The information was analyzed in the light of international business theories and of strategy theories.

One should point out that the case studies did not faithfully follow all the procedures outlined by Yin (2001), especially as to carrying out interviews in all the companies and the subsequent review of the reports, this being one of the tests used to check construct validity.

4 PRESENTATION OF THE RESULTS

4.1 JBS S/A.

JBS is one of 14 Brazilian companies listed among the 100 companies from emerging countries considered as “challengers” – companies that are rapidly globalizing and challenging established global leaders – in the list prepared by the Boston Consulting Group (BCG, 2009). What is striking is the sector to which JBS belongs. From a butcher opened in 1953, it became a meat processing company that expanded internationally as from 2005 by acquiring companies in Argentina, the United States, Australia and Italy.

In 1957, with the construction of Brasilia, the owner established one of the first slaughterhouses in the region and began selling to butchers that were starting out in the new capital. The company grew and by 1970, it was already slaughtering 500 head of cattle a day. That year, Friboi was established and the company ceased to be a slaughterhouse to enter the meat processing sector.

From 1981 to 2002, operations expanded significantly in Brazil, through the acquisition of slaughterhouses and production units of fresh and processed meat and investments to increase production capacity. In this period, slaughtering capacity reached 5,800 head a day.

In 1997, Friboi started exporting fresh beef. Ten years later, its products were being exported to over 500 customers in over 110 countries. In Brazil, it had some 6,000 customers, including retailers, restaurants and tanneries.

In 2005, JBS initiated its internationalization process by acquiring Swift Armour S.A., the largest producer and exporter of beef in Argentina, with two plants, thereby becoming the first Brazilian multinational in the meat sector. Also in 2005, the Friboi Group was restructured, with the creation of JBS S.A., the initials of its founder, José Batista Sobrinho. Friboi became one of the company brands.

In 2006, the company acquired two plants from CEPA, also in Argentina, and two more in 2007. Before filing for bankruptcy in 2005, the latter had been one of the largest meat processing firms in the country, working with processed products for the foreign market (Pozzobon, 2008). Also in 2006, JBS acquired the American distributor of processed beef products, SB Holdings.

In July 2007, it bought 100 percent of an American company, Swift Foods & Company (with units in the United States and Australia), making JBS USA the largest beef company in terms of slaughtering capacity, with over 40,000 employees. With this acquisition, it became the biggest Brazilian food multinational and the world's largest company in the bovine protein sector. This operation also enabled it to enter the pork market as the third largest producer and processor of pork in the United States.

In December 2007, the company announced the acquisition of a 50 percent stake in Inalca, one of the main European companies in the sector and the Italian beef market leader, with operations in Russia and Africa. The deal included the purchase of Montana Alimentari, one of the biggest Italian concerns in the production, marketing and distribution of cured meats, appetizers and ready-to-eat products, offering over 230 items. Both are controlled by the Italian group Cremonini, and the reason for the purchase was to enter the fast food market and gain access to large retail chains and food distribution companies.

In March 2008, JBS announced its intention to purchase the American enterprises National Beef Packing Company and Smithfield Beef, and an Australian concern, Tasman. JBS was particularly interested in the higher added value activities of National Beef. The goal was to become a \$22 billion global company, with operations in the United States, Europe, South America and Australia, because it believed in the increased demand from emerging countries, especially China. However, the US Justice Department vetoed the purchase of National Beef (Ribeiro & Todeschini, 2009).

Finally, the most recent acquisitions, carried out in September 2009, were of an American company, Pilgrim's Pride, and of a Brazilian firm, the Bertin Group. JBS USA holds a 64 percent stake in the company and existing shareholders hold 36 percent. Pilgrim's Pride is one of the largest producers of chicken in the world, with plants in the USA, Mexico and Puerto Rico. Its production in the 2008 fiscal year amounted to 3.8 million tons, and its net

revenues reached \$8.5 billion. It has 33 slaughterhouses in the United States, 3 in Mexico and 1 in Puerto Rico, plus 7 distribution centers in the United States, 18 in Mexico and 1 in Puerto Rico. It has 41,000 employees. The Bertin Group is one of the largest producers and exporters of Brazilian fresh and processed beef. A holding company was set up, of which the Batista family has 60 percent of capital and the Bertin family the remaining 40 percent. The holding company owns a 60 percent stake in JBS SA while the remainder is spread out among minority shareholders and BNDES.

At the end of 2009, after purchasing assets in Brazil and abroad, JBS became a diversified conglomerate, operating in 23 countries on 5 continents, with 126,000 employees, 141 plants and annual revenues estimated at \$30 billion (JBS, 2010). It has become the largest global producer of beef, with a 40 percent share of international trade, the largest in leather processing and third in hog production (Ribeiro & Todeschini, 2009). It is the world's largest producer of animal protein (including poultry and hogs), and the second biggest poultry producer.

4.2 MARFRIG S/A

Marfrig Alimentos S.A. is a processor and distributor of fresh, processed and industrialized beef, pork, lamb and poultry products in Brazil and abroad, in addition to distributing other food products (pre-cooked frozen potatoes, vegetables, processed meats, fish, ready-made meals and pasta). It has 92 plants and offices in South America, North America, Asia, Africa and Europe. The company has made 37 acquisitions over the past 3 years, most of them abroad, ensuring their presence in 13 countries and exports to over 100 countries. Marfrig ended 2009 with some 47,000 employees and the following structure: 31 cattle slaughtering plants, 17 chicken slaughtering plants, 33 processed products plants, 4 hogs slaughtering plants, 1 turkey slaughtering plant, 5 lamb slaughtering plants, 4 poultry and hogs feed plants and 2 trading companies that operate in Brazil, Uruguay, Argentina, Chile, the USA and Europe. The daily slaughter capacity is 30,200 cattle, 10,400 hogs, 10,400 lambs, 30,000 turkeys and 3.1 million chickens. It has an installed capacity of 65,000 tons of processed products and 180,000 pieces of leather are processed

every month. In 2009, its gross sales revenue grew by 51.7 percent, to R\$10.3 billion, relative to 2008. A R\$35.5 million loss posted in 2008 was reversed by a record profit of R\$679 million in 2009 (Marfrig, 2010).

The company moved in the opposite direction of its competitors. JBS, Sadia and Perdigão came from a rural environment in animal breeding and became large meat processing and industrialized food companies. Marfrig came from the retail area and grew towards the countryside (Attuch, Netto, Mattos & Vital, 2009). Meat processing companies have the product and need customers. Marfrig always had customers, but no products. Its main growth strategies were internationalization and diversification. It became one of the biggest Brazilian multinationals by means of major acquisitions.

The company started up in 1986 and two years later had already established itself as an important distributor of beef, pork, poultry and fish, along with imported frozen vegetables, in São Paulo state. In 2000, the partners formed Marfrig Frigoríficos e Comércio de Alimentos S.A. and leased their first slaughterhouse and cattle processing plant in Mato Grosso do Sul state (Pozzobon, 2008). In 2001, the first exports were shipped and the company's growth strategy was to acquire plants in Brazil.

In 2007, it acquired Masplen, the owner of a canned meat and beef jerky plant, and a tannery. In 2008, there were three acquisitions: Mabella, with two hog slaughterhouses and a feed mill; Moinhos Cruzeiro do Sul, owner of the "Pena Branca" brand, and DaGranja Agroindustrial, which also works with hogs. These purchases, totaling \$111 million, enabled Marfrig to enter the segment with the slaughter of 780,000 heads of poultry a day.

In 2008, when it purchased Carroll's Food in Brazil (hog rearing) and OSI (poultry), Marfrig strengthened its position in these sectors. In exchange for an equity share, BNDES invested R\$472 million to purchase the assets of the American group OSI, which operates in Brazil and several European countries, and is a supplier for McDonald's. This, at \$680 million, was the biggest acquisition, and included the purchase of Braslo (a major supplier of beef for fast food chains). As a result, the company began to operate in the entire meat chain. Continuing to pursue its diversification strategy, in 2009 it acquired the turkey segment assets of Doux Frangosul, including a slaughterhouse with a 30,000 animals a day capacity, a feed mill, a hatchery and four farms, with one

million animals for slaughter, 50,000 for producing fertile eggs and more than 300 suppliers. At the shareholders meeting in April 2009, Marfrig Frigoríficos became Marfrig Alimentos.

In 2009, there was the important acquisition of Seara from Cargill Alimentos Foods S.A., with operations in Brazil, Europe and Asia. This added plants with the capacity to slaughter 1.2 million birds a day, two hog plants and three processed food plants. The company has its own port terminal, nine feed mills and six farms with breeding poultry.

In September, Marfrig leased seven units from Margen, a meat processing company that is undergoing a judicial recuperation process, and five from Mercosur. It also bought the Quatro Rios meat processing company, which specializes in the production of corned beef and is certified to export to the United States and Europe. This move seen as a reaction strategy to JBS, which had announced a merger with the Bertin Group and the purchase of the US-based company Pilgrim's Pride, which had made it the largest meat industry in the world.

In purchasing Seara, the company gained a diverse portfolio of products and a nationally renowned brand. However, there is still much to do. Marfrig and Seara, together, have only 7.8 percent of the frozen meat segment in Brazil.

The company also entered a five-year partnering agreement with the Martins Group, the biggest distribution company in Latin America. The objective is to expand the company's operations in the retail and food service segment, in a strategy to position itself as an alternative option to Brasil Foods in the processed foods area (Mattos, 2010).

The internationalization process stemmed from the foot and mouth disease outbreak of 2005 that prevented the export of fresh beef; this was one of the chief reasons for transforming Marfrig into a global company. The company exported to 40 countries and for its survival, it was crucial to protect itself from unforeseen sanitary events. Internationalization, also through acquisitions, began in 2006 with its entry into Chile, Uruguay and Argentina. The acquisition of Breeders and Packers in Argentina was due to the strict sanitary control in that country, which enables it to export to the most demanding of markets, along with the export quota of top quality meats from Argentina of 29,000 tons, as compared to Brazil's quota of only 5,000 tons.

In mid-2007, the company went public on BOVESPA [São Paulo Stock Exchange], to obtain funds and expand its purchases. It announced the acquisition of a Chilean meat processor, Patagonia, a large exporter of lamb, and a 70.51 percent stake in Quickfood Argentina, a leader in the production of beef foods and owner of the Paty brand, with 60 percent of the Argentinean market and 45 percent of Uruguayan market in hamburgers. It also bought a Uruguayan meat processor, Colonia, the country's largest beef exporter. With this operation, Marfrig became the largest private-sector enterprise in Uruguay, accounting for 30 percent of all the beef slaughtering and exporting in the country, and also operating with lamb slaughtering.

In 2008, the company prioritized acquisitions in Europe and the United States. It purchased Mirab, a leading manufacturer of meat snacks, and controller of Mirab USA, one of the largest processors and distributors of beef jerky. It also acquired companies of the Moy Park Group in England, Northern Ireland, France and the Netherlands (Castro, 2008). This is the largest group in Northern Ireland and the largest producer of processed poultry in the UK. In late 2009, it signed an agreement to acquire 51 percent of the Uruguayan group Zenda, which specializes in the production and sale of leather, with units in eight countries, and is a supplier for the automotive, aviation and upholstery industries.

After Perdigão bought Sadia and set up Brasil Foods, and the latest national (Bertin Group) and international acquisitions of the JBS Group, Marfrig, after buying Seara, ranks third among Brazilian food companies. Because of the location of many plants in Brazil, Argentina and Uruguay, it benefits from low production costs, large availability of land and tradition in the raising of animals for slaughter in these regions, resulting in competitive prices and higher export volumes. This ties in with the sale of processed and industrialized foods of high added value in consumer markets with high purchasing power, such as Europe and the United States, thereby generating greater profitability.

The company's latest achievements include the acquisition of a US group, Keystone Foods, in June 2010, for \$1.26 billion. As a result, Marfrig's revenues rose sharply to some \$28 billion and its assets expanded by 54 units and 13,000 employees, overtaking Brasil Foods and coming just behind JBS. It has become a global supplier of the McDonald's and Subway chains, and also displayed its

Seara brand in stadiums in South Africa during the last World Cup as one of the official sponsors of the Fédération Internationale de Football Association (FIFA) until the 2014 World Cup. To crown its success, it was elected company of the year in agribusiness (Sambrana, 2010; Salomão, 2010).

4.3 SADIA S/A

Sadia is a food products company that has developed and consolidated a position for itself in the domestic market, using innovative procedures since its founding in 1944. Initially based on the poultry market, the company strengthened its position as the largest company in this segment. From then on, it expanded into hogs, also achieving outstanding positions in the Brazilian market. Anticipating changes in consumer habits, it launched ready-made meals, which became a benchmark reference in Brazilian households.

Until the end of 2008, Sadia was the Brazilian processed foods leader, the country's sixth largest exporter, one of the 40 largest Brazilian companies and one of the biggest food companies in Latin America. It had 17 plants in 8 states and 1 in Russia, in addition to 12 major distribution centers in Brazil. Abroad, it had sales offices in 14 countries, serving 630 customers.

In the domestic market, it had a portfolio of around 700 items, distributed to some 300,000 points of sale. In terms of the foreign market, it exported 250 products to 92 countries. It launched 60 to 90 new products every year and served 125,000 corporate clients. It was considered the most valuable brand in the Brazilian food industry by the consulting company Interbrand. It was also classified as one of the largest employers in Brazil, according to the Best and Biggest ranking published by Exame magazine, with 60,580 employees at the end of 2008 (Sadia, 2009). The company had partnering agreements with 10,000 integrated rural producers of poultry and hogs, contributing to the generation of jobs and income in the countryside and guaranteeing its supply of raw material from a controlled sanitary source.

Sadia began exporting in 1967, with frozen pork and beef for Europe, in an operation of symbolic value. In the early 1970s, the domestic poultry market was small, at about 20 percent of current consumption. The excess production of chickens due to the expansion of poultry farming in the south and southeast was

an important stimulus for foreign sales. At that time, the company was approached by a large importer of poultry meat from the Middle East, which was facing problems with European suppliers. Exports of frozen chicken began in 1975, with government subsidies (Stal & Lopes, 2009).

Operating as a public company since 1971, in 2001 Sadia launched ADRs (American Depositary Receipts) on the New York Stock Exchange, an important step in its internationalization process. Since 2004, it has also had its shares traded on Latibex, the Madrid Stock Exchange for Latin American companies (Sadia, 2009).

The 1980s consolidated the company's export calling. In 1980, Sadia Trading was created and put in charge of international operations. That year, exports exceeded \$100 million to the Middle East, the Far East, Japan and Hong Kong, in addition to Europe and the United States.

In 2001m exports accounted for 38 percent of the company's gross revenue, and it held a 30 percent share of Brazilian poultry exports. Sadia was involved in setting up a joint venture with its major competitor in the food sector, Perdigão. In April 2001, they announced the creation of BRF International Foods, an exporter that would take the pork and poultry from the two companies to emerging and hitherto unexplored countries. However, in October the following year, the partnership was dissolved.

In subsequent years, exports continued to grow, reaching as much as 49 percent of revenues in 2005. That year, the company set a record, with sales of \$4.1 billion, an increase of 13.7 percent over 2004. Domestic sales amounted to R\$4.25 billion. Since 2005, Sadia had resumed investing in the beef market, which it had left in the 1990s. It did this because it realized there was a great demand in markets the company already supplied with pork and chicken, such as Russia and the Caucasus.

In 2006, however, the situation was very different. Bird flu significantly affected Sadia performance in foreign markets, so it turned its sales strategies back to the domestic market. With the new, post-bird flu crisis context, Brazilian exporters began focusing on South America, which increased imports of Brazilian chicken by about 70 percent. In Africa, there was an increase of more than 30 percent in the first half of 2006.

In 2007, the company acquired the assets of BK Poultry in the Netherlands for the manufacture of processed foods from beef and poultry, which marked the beginning of its internationalization. That year, with investments of \$70 million, it also opened its first plant abroad, in the form of a joint venture with a Russian company, Miratorg, one of the largest meat distributors in that country. Initially, the company was to make processed meat products from frozen meat exported from Brazil and at a later stage, it would make ready-made frozen meals.

In 2008, given the crisis caused by the economic turmoil and losses of R\$2.5 billion due to risky operations with currency derivatives, the company suspended part of its investments planned for 2009, both in Brazil and abroad. Sadia decided to sell the plant in Russia as one of the capitalization alternatives under study. It was dissatisfied with the relationship with the local partner, which owned 40 percent of the business.

4.4 PERDIGÃO S/A

Perdigão is one of the largest food companies and one of the biggest meat processors in the world, exporting its products to more than 110 countries. It is third in the world ranking of poultry slaughterers and is among the ten biggest in the slaughter of hogs, besides being one of the main Brazilian companies in milk collection and the production of processed dairy products, pasta and pizzas (Perdigão, 2009).

Founded in 1934, from a small store opened by Italian immigrants in Videira in Santa Catarina state, Perdigão Agroindustrial S.A. began its industrial activities with a hog slaughterhouse in 1939 and evolved over subsequent decades through acquisitions in the hog and poultry areas, until it became one of the leaders of Brazil's agribusiness sector. It produces more than 2,500 items, including fresh and processed products (from poultry, hogs and cattle), plus pasta, frozen vegetables and soy-based products.

The company went public in 1981, but in 1993, when it was about to celebrate its 60th anniversary, it was an almost bankrupt family business. In 1994, a group of pension funds took control of the company, and the following year made Nildemar Secches its CEO. The new management model introduced

important changes that were reflected in the results of the company and its operations in the capital market, leading it, over the next few years, to compete in the domestic and international markets on an equal footing with its biggest competitor, Sadia (Ludkevitch, 2005). In 2000, it was the first Brazilian food company to launch Level II ADRs on the New York Stock Exchange.

Strategic acquisitions contributed to the growth and diversification of the company. In 2000, it bought 51 percent of the meat area of Batavia, making its debut in the turkey segment, and in 2001, it acquired control of this area from the company. In 2006, it bought 51 percent of Batavia's dairy sector, and the remaining 49 percent that belonged to cooperatives in Paraná the year after.

In 2000, it opened its first office abroad, in England. In 2002, this was transformed into a business unit to coordinate units in Italy and the Netherlands, opened in 2001. That year, the global Perdix brand was launched for processed products, and sales offices were opened in the United Arab Emirates, Russia, Austria, Singapore and Japan.

In late 2007, it bought a Dutch company, Plusfood, after a 15-month negotiation. This marked the beginning of its internationalization and its entry into the beef segment. With some 400 employees, the company had industrial units in Holland, the UK and Romania, and more than 400, mainly frozen, products (breaded and grilled meat products and hamburgers) marketed in several European countries, generating annual revenues of approximately €75 million. Plusfood is especially strong in the food service segment, but also operates in the retail sector, both channels being fundamental for breaking new ground and creating new opportunities for Perdigão on the European continent.

Another important aspect of the acquisition of Plusfood was its R&D center, responsible for developing several products that are successful in the European market, such as Speedy Pollo, a breaded chicken strip that became a sales leader among young Italians, and that may be tested in Brazil. Taking advantage of its units in the three countries, Perdigão can choose the best location from the point of view of profitability and market to produce the new items for the European market under the brand name Perdix. Perdigão also has an industrial unit in Argentina, which belonged to Eleva (former Avipal, which processes dairy products and meats). This company has an important share of the chicken and pork market, in addition to working in the dairy products segment.

From 1994 to 2008, Perdigão multiplied its net revenue by a factor of 26 and its market value by a factor of 35. The number of employees also increased from 12,000 in 15 plants to 60,000 in 42 plants, including 3 in Europe (Holland, England and Romania) and 1 in Argentina. The takeover of Plusfood enabled Perdigão to diversify its operations in Europe, allowing it to operate in the segment of processed and refrigerated products, importing raw materials from Brazil to its European processing plants, which supply retailers in the region. It also has 10 sales offices abroad.

Among its several innovations, the company developed the genetic technology of its so-called chester, a product of vital importance to its history. In 1979, the first parent stock of the species *Gallus gallus* were imported from the United States, and following genetic improvement work to develop a special bird, this reached the market in 1983. A hybrid with fine meat, some 70 percent of its weight is in the chest and thighs. In order to end dependence on imported technology from the United States, some Brazilian universities specializing in this field were hired. In 1992, a unit specifically dedicated to chester R&D was set up in Minas Gerais state.

On May 19, 2009, the merger between Sadia and Perdigão was disclosed to the market. The new company was named Brasil Foods (BRF). In fact, Sadia, which was in a very weak position due to losses in the financial market, was absorbed by Perdigão. The two enterprises had similar characteristics in terms of origin, location, growth strategies, diversification moves and internationalization. Since 1994, both had undergone periods of crisis, with falling sales. Since then, they had taken different paths as regards internal structure and management models (Ludkevitch, 2005). The controlling families (Fontana and Furlan) had always been a limiting factor Sadia's growth. In order not to dilute its shareholdings, the company had issued no stock over the last 10 years. Perdigão, on the other hand, with its fragmented capital, did this twice during this period. Its stock exchange value increased by a factor of 132 over the last 20 years, while Sadia's increased by a factor of only 6 (Meyer & Costa, 2009). Therefore, the Fontana and Furlan families' stake in the new company is only 12 percent of the capital.

Brasil Foods started out with gross revenues of R\$25 billion, the second largest food company in the country. Its products are to be found in more than 100 countries. Sadia had more than 60,000 employees, a portfolio of over 700

items and 125,000 customers; Perdigão had 59,000 employees, a portfolio of over 2,500 products and more than 100,000 customers; 45 percent of sales should go to foreign markets and 55 percent to the domestic market.

5 ANALYSIS AND DISCUSSION OF THE RESULTS

The cases analyzed in this article show that the Brazilian meat agribusiness sector uses a traditional strategy of exports, given the comparative advantages of the country and the competitive advantages of its companies, especially when it comes to innovating products that are adapted to foreign markets and developing technologies applied to animal genetics.

Its internationalization, primarily through the acquisition of companies abroad, was a response to sanitary barriers and the embargoes applied to Brazilian exports, especially from 2005, by the biggest markets in the world, such as the United States, Canada and the European Union. As a result, the hypothesis formulated at the beginning of the study was confirmed.

However, despite being preponderant, these restrictions were not the only reason for these companies' clear move towards internationalization after 2005. One must also separately examine the strategies of JBS and Marfrig, basically beef processing industries, and those of Sadia and Perdigão, whose main products come from poultry and hogs. The number of JBS and Marfrig overseas acquisitions is far greater than the Sadia and Perdigão movements.

For Marfrig and JBS, sanitary barriers were decisive in driving them toward the acquisition of other companies, taking over just the management of the business. As a result, they broadened their future prospects for facilitating intra-firm import/export operations and the reach of Brazilian production in protected markets. This reactive strategy (Miles & Snow, 1978) was complemented by a forward-looking strategy to diversify, by entering new segments such as poultry, leather and dairy products, along with the manufacturing of processed meat products, in order to broaden markets and balance out possible problems in one or other of the segments. In the case of JBS, the purchase of the Bertin Group in 2009 guaranteed its access to new segments.

According to the chief financial officer of JBS, the company did not think necessarily about going international. What it seeks, rather, are opportunities for acquiring companies where it is possible to add value, either in the domestic or foreign market (Saldanha, 2008). Internationalization is not merely a means of showing the power of the Brazilian meat processing companies in the international market. To the contrary, this strategy allows companies to learn the livestock farming procedures of other countries and introduce them in Brazil.

For Sadia and Perdigão, export was always a successful strategy, especially when it adapted its products to different markets, often creating specific production lines. Local production factors, such as organization of the production chain, the quality of the suppliers, soil, favorable weather conditions, sanitary control, and other factors were significant and guaranteed increasing profits. Both have a large and complex production chain that includes suppliers of corn and soybeans, integrated producers of poultry (chickens and turkeys) and hogs, and certified cattle suppliers.

The internationalization of both, which occurred, coincidentally, in 2007, was due to export restrictions on poultry and beef products (hamburgers): BK Poultry was acquired by Sadia and Plusfood, by Perdigão. However, these were also opportunities to expand markets and strengthen brands, especially in the case of Sadia.

On the other hand, Sadia's decision to set up a plant in Russia through a joint venture with Miratorg resulted from the perception of an opportunity to use its knowledge in meat processing alongside a partner that was product distribution expert. Russia was already one Sadia's biggest customers and its brand was known there. The plant started up in 2007, but in early 2009, the partnership was dissolved, due to the Sadia losses in the Brazilian financial market. Before this, a second plant in the UAE was in the company's plans, as demand in the region is very high (Sadia's exports to the Middle East totaled \$550 million a year) and a third plant was planned for 2009 in an Asian country. These plans were temporarily scrapped, given its merger with its competitor, Perdigão.

One should also mention some of the reasons listed by Cyrino and Penido (2009), who analyzed the behavior of Brazilian, Argentinean and Chilean companies. The 93 Brazilian companies that replied to the questionnaire cited as

their main reasons for internationalization, in descending order: access to new markets; the search for economies of scale; the opportunity to exploit their competitiveness internationally through product differentiation; the search for greater knowledge about the needs of international consumers; the opportunity to exploit the technological and managerial capacity of the company internationally; learning and developing new competences; the vision or wishes of the shareholders, owners or directors, and pressure from global competition.

The internationalization movement of companies in the sector can be explained by the main theories of international business. According to the motivations reported by Dunning (1994), what occurs is a search for new markets and for strategic assets in the form of companies already established, operating and located in countries whose exports suffer no restrictions from the main consumer markets. When considering the variables of the eclectic paradigm (Dunning, 1988), it is seen that companies used their ownership advantages (the comparative advantages of Brazil, quality products adapted to different markets, production efficiency, availability of financial resources) and expanded them. They bought 100 percent of companies already set up, which enjoyed international recognition in terms of brands, distribution channels, tacit knowledge, mastery of their own technology in production, new product R&D capacity, top quality products and large production capacity. Ownership advantages may also be related to the strategic Resource-Based View theory (Barney, 1991), and to the firm-specific advantages (FSA) of Rugman (1981).

The location advantage of the subsidiaries was gained in strategic markets, aiming mainly to circumvent the protectionist barriers imposed by local governments. Finally, there is the advantage of internalization, through the acquisition of businesses that involved the vertical integration of production and industry or of production and distribution. If we apply the eclectic paradigm to the situation prior to 2005, when companies were only exporting, this also provides an explanation for this strategy, considering the location advantages in Brazil of its agribusiness activities.

However, the Uppsala School also explains the internationalization of Brazilian companies in the agribusiness sector, since all of them began with exports.

6 FINAL THOUGHTS

The internationalization of Brazilian companies has increased significantly in recent years. Firms that only exported decided to proceed to subsequent stages in this process, either through the acquisition of enterprises abroad or by setting up plants (greenfield sites), alone or in joint ventures with local companies. Of similar origin, these companies evolved from family structures to professionalization and going public.

Internationalization strategies are often heavily planned and the choice of target countries is based on criteria for obtaining certain advantages. However, in many cases, these strategies are a reaction to market restrictions on imports from Brazil or to competitors' moves. In the case of the companies analyzed here, which are in the meat agribusiness sector, different strategies were perceived to determine their internationalization process. In general, the opportunity of being closer to the consumer market, of understanding the distribution channels better and of disseminating the company brand were also important reasons in the cases studied.

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