



Materia Do Brazil (MATEBRAZ)-A An Investment Proposal in Brazil

This case deals with an investment proposal to be made by Mr Alberto Da Silva, Managing Director of Materia Do Brazil (MATEBRAZ), the Brazilian subsidiary of BMG Plc, a UK multinational whose headquarters are in Bristol. The purpose of this case is to analyse an international investment proposal decision from the perspective of various global and local managers. This first case gives some background information about the mother company, the Brazilian subsidiary and the type of investment that is considered.

Subsequent cases give information about the proposed investment made by Alberto Da Silva and the reaction of Ron Clifford, the Head of the US factory that traditionally exported to Brazil. Another case look at the potential position of the corporate chairman office, the global business division head and the regional head. Ultimately a decision will have to be made by the Chairman¹.

BMG PLC

BMG Plc is a large industrial company in the UK. The company was founded in 1932 and produced specialised building products. An overseas sales network was rapidly expanded into France, Belgium and the Netherlands but the expansion was stopped by the World War II.

During the late 50's the sales network was further expanded to Germany, Scandinavia, and Southern Europe. In 1963 BMG acquired a company in Texas and opened a joint venture company in Japan. During the 1980's BMG expanded aggressively in Asia and Europe. It opened several marketing and sales subsidiary while maintaining the production in the UK, Texas and in Japan. Sales were mainly export sales handled by the marketing and sales offices in countries.

But in 1989 the company started to open more factories across the world and in the mid 90s was producing 36 different products in 15 production sites. Products were grouped into four broad divisions: Specialty Materials, Building Materials, Plastics and more recently Composites. A matrix organization made of the four division and three regions was introduced in 1995. (See Exhibit 1 for a simplified organisation chart). According to the matrix, the Managing Directors of subsidiaries were responsible for its growth and return on investment, the divisions Vice President were responsible for the overall global profitability of their division and the regional Vice President for the profitability of their region. The management philosophy of the

¹ This mini case is inspired by an original case AB Thorsten (A-C) written by Professors Gordon Shillinglaw and Charles Summer at IMD, Lausanne. The structure, text, dates, products, countries involved and organizational setting are completely different than the original case. Only the managerial issue remains.



group is to encourage local entrepreneurship and performance. Subsidiary managing directors are encouraged to take initiatives and benefit from a high degree of autonomy within the framework of corporate policies. Subsidiary managers can select which existing BMG PLC products are fitted for their own market. Transfer prices determined by the export factories constitute the basis for pricing but subsidiary managers are free to refuse to sell if the price is not appropriate for the market. Subsidiaries are encouraged to propose to division management the development of new products. The subsidiary Managing Director can build his own manufacturing plant if he can justify the investment in his own market and meet the return target. In 2006 the target is a minimum of 12% return on new investments.

The Composite Division

The division headed by Richard EVANS has three manufacturing sites: one in the UK, one in the USA, one in Japan. All other countries are served by marketing and sales subsidiaries sharing their resources with other product divisions. In the American region the production centre is in Houston Texas with export sales across the continent. Ron Clifford is the Chief executive of the Composite Business unit, BMG of Texas, based in Houston. In Brazil Mr Da Silva is the Managing Director of Matebraz the Sales and Marketing subsidiary. Both Clifford and Da Silva report to Bill Bower the Regional VP as well as to Richard EVANS, the Division VP.

Composite materials have a lot of applications but one of the main markets is aeronautics. More and more aircraft manufacturer use composite materials to lower the weight of the plane. BMG of Texas, because of its strong link with the US aircraft industry has been the traditional core of the division. In the late eighties the R & D department produced a series of products which could be used in the new generation of civil and military aircrafts and components. Originally part of the Specialty product division, Composite became a Division of its own in 1997. At the time all products are manufactured in Houston and sold through agents and distributors, Later on, another manufacturing plant set up in Bristol (UK) to serve the European market and a small operation opened in Japan for Asian markets. Richard EVANS an old timer coming from the Texan operations was transferred to Bristol and became the senior Vice President in charge of the division, while Ron Clifford replaced him at the head of the BMG of Texas. Clifford was also an old timer who participated in the development of composite materials. His objectives are to optimise the US operations with a preference for exports rather than local production. His arguments are that in this industry the most important competitive factors are innovation and costs. Economies of scale matter a lot when it comes to cost. The main R and D centre located in Houston is close to the factory and, Ron thinks that it is more efficient to have manufacturing and research close to each other.



Materia Do Brazil (MATEBRAZ)

Materia Do Brazil was started by BMG PLC in 1993 as a sales and marketing joint venture with an equity participation of a Brazilian entrepreneur. During the first six years, MATEBRAZ sales across the four product categories were relatively low. It was decided, with the agreement of the Brazilian partner to transform it into a 100% subsidiary and BMG PLC bought back the shares from its partner. Richard EVANS, at the time VP of the American region, decided to recruit a local Managing Director to lead the subsidiary. Antonio Da Silva a 38 year old engineer who got an MBA degree from the Fundacao Getulio Vargas, the leading Brazilian business school was hired. He had 4 years of experience in production engineering for a French aircraft component company, four years as Marketing Manager for a German avionic firm and two years as a Product Division Manager in an American defence company, all based in Brazil. His experience with the aeronautics and defence industry was particularly valuable. He was exposed to the practical applications of modern project management, strategic marketing and financial analysis techniques. He is quite confident about the future of MATEBRAZ particularly in the composite and building products. Alongside with China, India and Russia, Brazil is part the group of emerging countries, the BRICs, that are the growth engines of the global economy. For him such a job of growing a company is particularly challenging given the opportunities and the entrepreneurial spirit promoted by Williams and BMG's corporate team.

In 2005 Da Silva had been Managing Director of MATEBRAZ composite business for six years. During that time sales quadrupled and profits reached a level that BMG PLC management found highly satisfactory. In September 2005 Da Silva appointed to the Board of MATEBRAZ and became country manager. Besides himself, the Board consisted of EVANS plus two non executive directors, both of them prominent Brazilian businessmen: a banker and an entrepreneur head of a family -owned conglomerate.

The ARAMZK-6 project

With the development of a global aircraft industry in Brazil, Da Silva thought that ARAMZK-6, a high-tech ARAMID composite developed by the central laboratory could be sold in Brazil. Because of its technical characteristics in term of temperature and resistance it could be used in many part of plane air frames and gives aircraft or defence manufacturers an opportunity to achieve substantial savings in cost and weight.



However, this product required customers to convert process with the assistance of engineers from BMG. ARAMZK-6 was produced in Houston with a plant capacity of 2000 tons. By April 2006 the product was not sold in Brazil but some tests (5 tons) conducted in December 2005 by Da Silva and his team with EMBRAER, the Brazilian aircraft manufacturer proved that ARAMZK-6 would have a good future in this country. The Brazilian defence and aircraft industrialists are already using some composite materials from BMG's competitors but Da Silva was confident that ARAMZK-6 was a better product and anticipated a bright future for the product in Brazil. The Brazilian market was potentially sufficiently large to justify the construction of a local plant. When he met EVANS in Bristol at an annual marketing conference he mentioned it to EVANS who encouraged him to pursue his investigations. He now had to prepare his case to be presented to the Board.

Exhibit 1
BMG Plc: A simplified Organisation Chart

