T&E SIG's STRONGER TOGETHER
Mini IB-case 2022-02

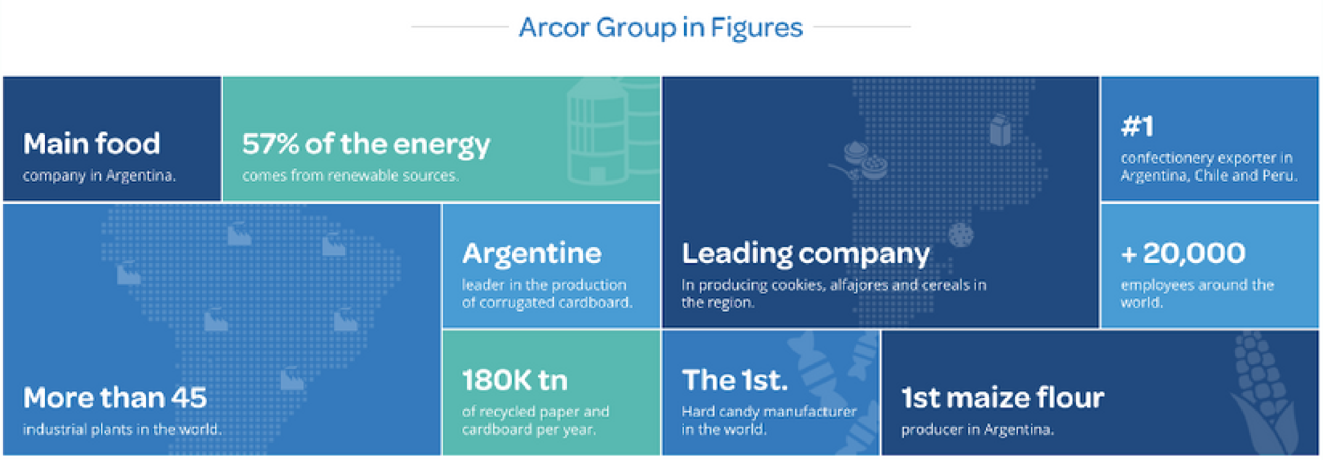
Going for the Third Strike in Africa: Arcor's Decision to Invest Beyond Latin America

(Dr. Diego Finchelstein, Business School, Universidad de San Andrés, Argentina)

As one of the largest confectionary companies in the world and number one producer of hard candy, the Argentine Arcor has a great international exposure. Arcor followed a classic growth and international expansion process. The company was created in the 1950s and after consolidating in Argentina, it then had its first international experience through exporting in the 1970s. As a second step, Arcor followed its internationalization with the opening of factories in neighboring countries in the early 1980s. Yet, until the 2020s all its factories were still located in Latin America. Even though Arcor's products could be found in over a hundred countries from the five continents, many people considered Arcor mainly a regional player because of its assets' locations.

Arcor products and brands were quite popular in Latin America but less known in other regions. Specially in several developed countries, were Arcor supplied products to other companies with already established brands. Arcor was determined to continue enlarging and consolidating its international presence and that is why it was considering expanding its assets beyond Latin America. Thus, by the late 2010s Arcor wanted to move forward in their internationalization and was considering building a factory in Angola. Its products were known in Africa, and it had been exporting to it for over 30 years.

Several questions that involved different sorts of challenges should be considered by Arcor's executives but two of them demanded a well-analyzed answer before taking any decision. First, **(1)** was it safe to invest in an unstable and unknown region? Arcor has proven successful within the social, economic, and political instability of Latin America but **(2)** were these skills replicable in another continent with a diverse set of institutional characteristics? Perhaps it was safer to start with an investment in a market with a more stable institutional background as the ones existing in Europe or North America. Secondly, if Arcor wanted to continue with the plan to invest in Angola, **(3)** which entry mode would be better? Entering alone could be an option to avoid cultural clashes and control the whole investment and production process. Yet, that would imply a greater effort to understand the local context and its stakeholders. A Joint Venture (JV) could also be a good choice but the partner selection and corporate governance rules should be assessed with special care given their lack of experience in investments in Africa.



Info about the company available at: https://www.arcor.com/en/who-we-are

Keywords: Internationalization, FDI, Africa, Latin America

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Teaching Notes 2022-02

Discussions from AIB members around the world

Three experts from Argentina, India, and the United States provide insightful perspectives for the Mini IB-case: **Going for the Third Strike in Africa: Arcor's Decision to Invest Beyond Latin America**

Dr. Diego Finchelstein, Business School, Universidad de San Andrés, Argentina

This mini case could be used to discuss several crucial concepts related to international business. The first one is about the decision on the right place to expand internationally. For Arcor, investing in Africa would be a bold move beyond their comfort zone of Latin America but it could bring several benefits. First, Africa is a growing market which is far from being saturated. It would also imply a competition with potentially more space to create value through differentiation. The market is less saturated and there is space for brand consolidation. This contrasts advanced economies, where larger MNCs are well established, and the market is more consolidated and has lower growth rates. A third option would be to continue its expansion in Latin America, where they are one of the largest players. Nevertheless, this would probably constrain their expansion goals given the limits that exports have (these limits could also be discussed by the students). The notion of south-south investments versus south-north expansion for emerging markets' companies could also be introduced as the case implicitly contains some of this conceptual framework.

The discussion about modes of entry is also valuable as several options could be compared (JV vs. FDI vs. exports). The goal is to apply these modes of entry to the needs of both the firm and country of investment. For instance, a JV could be a way to compensate for the lack of knowledge of the country/region but it also implies to share profits and knowledge of the operations and the decision making process. It is important to assess the risk of each of these variables.

Finally, other concepts such as the CAGE model could also be used in the discussion to better understand the risks of investing in Angola vs. investing in an advanced country or even the continuity within Latin America.

Dr. Alka Maurya, Amity International Business School, Amity University, India

Is it safe to invest in an unstable and unknown economy like Angola?

The best part about the Arcor's journey was that it was successful within Latin America's social, economic, and political instability. Through classic expansion mode, Arcor expanded in many countries globally but still was not able to create an image as a global player. Now, while identifying countries for establishing its manufacturing facilities, one of the important objectives for the company should be to get a tag of a "global player". So, for further expansion, Arcor can consider expansion in phases, in the first phase Arcor can invest in North America, it will not only help the company in taking advantage of the market in the NAFTA region but will also help in repositioning itself from a "company from Latin America" to a "company from Americas". Once Arcor is able to establish itself in the entire America it can further expand to advanced economies of Europe and emerging economies in Asia. In these economies, Arcor can also explore opportunities for integrating new-age technologies, which might help achieve economies of scale, improve supply chain management, and other manufacturing-related processes, while taking advantage of institutional infrastructure in these countries. Manufacturing facilities in European and Asian countries can be utilized for fulfilling demand in nearby markets including Africa. The company can thus realize its dream of becoming a global player.

The best part about Arcor is that in spite of being a company from Latin America it has adopted sustainable business practices. This will help the company in making inroads into advanced and emerging economies, where climate change and sustainable business models are the need of the hour.

Further, investing in Angola can be risky as it exited its five-year recession in 2021. This might help in increasing its market share in Africa and nearby markets, but it definitely will not help in positioning itself as global player which should be the main focus of the company in the current scenario.

Dr. Melanie Lorenz, College of Business, Florida Atlantic University, United States

First, was it safe to invest in an unstable and unknown region? Arcor has proven successful within the social, economic, and political instability of Latin America but were these skills replicable in another continent with a diverse set of institutional characteristics?

The case of Arcor presents and interesting growth dilemma, specially how and where to further expand internationally to increase economies of scale and scope.

Regarding their internationalization, there is probably no safe investment in the first place when going internationally. Investing in markets with stable institutional backgrounds like Europe or North America may be perceived as safe but will also have its own challenges, since they have strong home grown brands with great brand appeal in the confectionary business to which Arcor is currently only a supplier. Thus, it will be difficult for Arcor to break in the highly competitive market with its own rather unknown brand. Country of origin effects will also play a role as customers traditionally associate certain confectionary products with countries such as Switzerland, Belgium, etc., rather than Latin America.

The potential choice of Angola is an interesting one, while the region is perceived as unstable und unknown, it is a country that other Latin American companies have entered successfully before and thus presents opportunities. As pointed out in the question, Arcor has proven to be successful in the social, economic, and political climate of Latin America, thus, parallels may be drawn and knowledge transferred towards their target entry country of Angola. Finally, there may be some synergies, based on previous product knowledge, common languages etc, that may facilitate market entry into Angola.

In conclusion, Arcor has a difficult road ahead, no matter where they internationalize but Angola may be a preferred country to strengthen their international footprint.