Strategic Business Plan Genesi: Brazil

Alexa Phillips
April Wu
Brian Collins
Jake Jackson
Kyle Calkins

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Strategic Plan for Genesi: Brazil

I'm an average Brazilian worker who makes around $600 dollars per month and works hours per week. I do not have a large amount of discretionary income, but am eager to advance my standard of living and obtain new technologies. Genesi computers are affordable and are within my budget. Their computers will allow me to access the internet and social networking sites and will also allow me to stream audio and video.

As a major Telecommunication company in Brazil, we wish to become the dominant market leader. A strategic partnership with Genesi will help to provide a competitive advantage over our competitors by allowing us to provide the Brazilian people with affordable and reliable equipment.

As the Government of Brazil, we seek to improve the lives of our citizens. By purchasing equipment from Genesi, we will have reliable and effective units at a lower cost to Brazilian taxpayers. We also look forward to improving our education system by building labs equipped with Genesi computers.

Our strategic plan for Brazil is to be a cost leader in the Brazilian market by targeting major telecommunication companies such as Telemar, Telefonica, and the

Telmex group, while also positioning our products for use by the Brazilian government in education systems as well as small businesses.

Executive Summary

We plan to introduce our product into the Brazilian market by applying a multi-stage, five year time plan. In the initial start-up phase, we will incorporate a subsidiary company in Brazil and purchase property, plant, and equipment for initial use in the production of our products. Our target customers in stage one of our operations are Telemex, Telefonica, and Telemar. These three companies are the largest Telecommunication companies in Brazil and hold 76% of the telecommunications market. Telemar primarily operates in the northern half of Brazil, while Telemex and Telefonica operate in the south, including the strategic cites of Sao Paulo and Rio de Janero. We are confident that our low cost product will appeal to the growing lower class, and middle classes of Brazil. Currently, the major telecommunication companies are attempting to broaden their services to the emerging middle class and growing lower class. We believe our product will allow these companies to offer appealing and effective hardware and software to customers. After our first two years of operations in Brazil, we will begin to move into stage two of our plan. In this stage, we plan on obtaining licensing agreements with the telecommunication companies and will also expand our operations to include targeting the Brazilian government and education system. We expect to sell our product, with individualized software, to government agencies and schools in Brazil. After increasing our revenue stream through new licensing agreements and sales in the government and education sector, we plan on targeting medium and small businesses.

Vision & Mission

Vision:

To support the emerging market of Brazil by placing a smarttop or smartbook in every household.

Mission:

To be the number one provider of affordable technology to better serve the people of Brazil and increase standard of living and economic growth through strategic partnerships with telecommunications companies and the government.

External Analysis

Demographic

- 5^{th} Largest with a population of 191million
- Largest Portuguese speaking nation
- Largest country in South America

Economy

- 8^{th} largest in the world
- Low GDP- $10,816
- Well developed manufacturing
- Current high technological costs in Brazil

Political

- Tax Breaks for Brazilian Technology Companies
- Federal Republic with 27 states
- Corruption Perceptions Index of 3.7 rank 62^{nd}.

Industry

- HP is currently the top PC supplier
- Telmex, Telefonica, Telmar are the largest Telecom
- Positivo Informatica is the largest domestic PC maker in Brazil with 14% of the market share

S.W.O.T Analysis

Genesi - Brazil	S - Strengths	W - Weakness
	1. Flexibility 2. Innovation 3. Vertical Integration 4. Quality Service 5. Human Capital	1. Small Size 2. Lack of Financing 3. Economies of Scale 4. Lack of Brand Recognition
O - Opportunities 1. Expected Market Growth 2. Expanding Netbook Market 3. Low Entry Barriers 4. Increasing Standard of Living	SO – Strategies • Produce units in Brazil to increase speed to market (S1,S5;O1,O3) • Move into untapped netbook market (S2,S3,S5;O2) • Encourage growing standard of living through quality and customer service (S4;O4)	WO – Strategies • Establish beneficial partnerships to effectively position our products (W1,W2;O1,O2) • Overcome lack of Economies of Scale with low startup & operating costs (W3;O3) • Take advantage of the increasing demand for new technology by offering new innovations that will improve our brand recognition (W4;O4)
T - Threats 1. Government Regulation 2. Hewlett-Packard 3. Customer Acceptance	ST – Strategies • Incorporate a subsidiary company in Brazil (S1;T1,T2) • Our innovative strategies & low costs will appeal to Brazilian population (S2,S3,S4;T3)	WT – Strategies • Partner with major telecommunication companies (W1,W2,W4;T1,T2,T3)

Internal Analysis

Resources and Capabilities:

- Better financial plan to fund more
- Develop a customer service relationship
- Government ties with the Brazil industry
- Having people in the subsidiary company to run the company
- Sales associate

Value:

- Flexibility
- Innovation

Imitate:

- Not costly to imitate

Business-Level Strategy

Customers:

- 1st tier- Telemex, Telefonica, Telemar
- 2nd tier- government and police force
- 3rd tier- small businesses

Products sold:

- Hardware
- Software
- Programs
- Solutions

Products to consumer:

- Incorporating in Brazil
- Subsidiary company to manufacture and distribute products

Price:

- Smartbook: $199/unit
- Smarttop: $129/unit
- Licensing: around $2,600,000/license

Customer Relationships:

- Train employees how to approach customers and make sure they are helpful without being overbearing
- Spend time with customers and make sure they are able to find what they are looking for and if they need any help
- Purchase programming sales and activities to see what is popular and how different customer types are spent
- Add a online data base site if businesses operate online and set up information for the products being sold and a way to contact customers in the future

Promotion:

- For B2B, this will include dinners, corporate retreats, and golfing trips with upper- level individuals of the companies we are targeting.
- For Education and Government, have select individuals on the board from the subsidiary company wine and dine with the client and then discuss business.

Generic Strategies:

- We are starting out as a focused-cost leader getting our products in with companies and to consumers. Eventually, we want to focus on differentiation by offering software applications, cloud, and energy efficiency after about 3 years.

Competitive Dynamics

Industry Defined: Defined by phone carriers in Brazil, companies that are involved in high-tech mobile sales and low-cost communication device companies.

Competitor Analysis:

1. Apple

Market Commonality: Apple and Genesi have low market commonality. The customers Apple is targeting have higher incomes and are looking for the newest, most innovative products. The customers Genesi is targeting have lower incomes and will be using technology for basic needs, not for luxury. This market that Genesi is targeting is not a significant target for Apple.

Resource Similarity: Apple has relatively low resource similarity with Genesi because of the quality of their products and their manufacturing processes. Apple manufactures their products in-house whereas Genesi has fleible manufacturing that can take place anywhere in the world. Additionally, Apple has the high brand recognition and popularity that Genesi doesn't have.

2. Hewlett-Packard

Market Commonality: HP and Genesi have a mid to high market commonality. These companies are targeting the same market in Brazil. Because HP offers cheaper options for consumers as opposed to Apple, lower to mid income families that can afford computers most likely already purchase HP products.

Resource Similarity: HP and Genesi have mid to high resource similarity. HP's products are most similar to those of Genesi in comparison with Apple or other companies in the industry, both focusing on cost effectiveness of their products. However, HP has a high level of brand popularity because of their current market share in Brazil that Genesi does not have.

Rivalry of Industry: The particular industry that Genesi is entering does not have a high level of competitive rivalry. Genesi is the first-mover in this industry. The competitors do not currently pose a legitimate threat because they already have a market share in Brazil and the market that Genesi is targeting is not significant to these competitors.

Likelihood of Attack/Response: Responses to Genesi's move in this market will be tactical responses, if any. The products that these companies produce are higher-quality and already very established, so any move by Genesi into the market will be counteracted with relatively small actions if any. HP and Apple already have market share in Brazil that will not be greatly affected by Genesi's entrance into this market. Additionally, they do not have a dependence on the market that Genesi is targeting. Therefore, there is a small likelihood of response by these competitors.

Speed of Market: This market is predicted to be a standard-cycle market. Genesi's cost advantage of remaining low-cost is moderately sustainable in this market. Their innovation response will increase companies rivalry due to low product cost. Since their competitive advantage is less specialized, imitation will be less costly than firms in the slow-cycle markets.

Corporate Level Strategy

In order to gain the profit that Genesi seeks, the company needs to pursue larger deals. While one large multi-million dollar deal is not necessary, Genesi does need to focus on larger sales to companies rather than minimal sales to various small businesses and groups. Through resource allocation and effective customer relationship management, Genesi will be more than capable of securing lucrative contracts. It is our opinion that Genesi should broaden their customer scope and begin actively selling to larger companies.

Financial Plan

SmartTop	800	880	1056	1373	1922
SmartBook	3500	4200	5460	7644	11466
Licensing	0	0	1	2	1
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Net Sales	**$ 799,700.00**	**$ 949,320.00**	**$ 4,722,764.00**	**$ 8,698,247.20**	**$ 6,029,661.68**
SmartTop @ $129/unit	$ 103,200.00	$ 113,520.00	$ 136,224.00	$ 177,091.20	$ 247,927.68
SmartBook @ $199/unit	$ 696,500.00	$ 835,800.00	$ 1,086,540.00	$ 1,521,156.00	$ 2,281,734.00
Licensing	$ -	$ -	$ 3,500,000.00	$ 7,000,000.00	$ 3,500,000.00
Cost of Goods Sold	**$ 476,000.00**	**$ 565,600.00**	**$ 2,329,120.00**	**$ 4,213,376.00**	**$ 3,110,454.40**
SmartTop @ $70/unit	$ 56,000.00	$ 61,600.00	$ 73,920.00	$ 96,096.00	$ 134,534.40
SmartBook @ $120/unit	$ 420,000.00	$ 504,000.00	$ 655,200.00	$ 917,280.00	$ 1,375,920.00
Licensing	$ -	$ -	$ 1,600,000.00	$ 3,200,000.00	$ 1,600,000.00
Gross Profit (Loss)	**$ 323,700.00**	**$ 383,720.00**	**$ 2,393,644.00**	**$ 4,484,871.20**	**$ 2,919,207.28**
Operating Expenses	**$ 1,921,015.90**	**$ 402,692.90**	**$ 1,295,892.04**	**$ 2,239,196.87**	**$ 1,629,212.55**
Executive Salaries	$ 141,165.00	$ 145,399.95	$ 149,761.95	$ 154,254.81	$ 158,882.45
Worker Wages	$ 53,956.40	$ 65,656.16	$ 86,668.53	$ 123,325.66	$ 188,150.61
Shipping/Handling @ $4/Unit	$ 17,200.00	$ 20,320.00	$ 26,064.00	$ 36,067.20	$ 53,551.68
Building	$ 75,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00	$ 10,000.00
Equipment	$ 1,500,000.00	$ 5,000.00	$ 5,000.00	$ 5,000.00	$ 5,000.00
Advertising	$ 9,520.00	$ 11,312.00	$ 14,582.40	$ 20,267.52	$ 30,209.09
Commissions	$ -	$ -	$ 175,000.00	$ 350,000.00	$ 175,000.00
Travel/Entertainment	$ 14,116.50	$ 14,540.00	$ 14,976.19	$ 15,425.48	$ 15,888.25

Taxes - 34% Tax Rate	$ 110,058.00	$ 130,464.80	$ 813,838.96	$ 1,524,856.21	$ 992,530.48
YEAR NET INCOME (LOSS)	**$ (1,597,315.90)**	**$ (18,972.90)**	**$ 1,097,751.96**	**$ 2,245,674.33**	**$ 1,289,994.73**
TOTAL NET INCOME	**$ (1,597,315.90)**	**$ (1,616,288.80)**	**$ (518,536.84)**	**$ 1,727,137.49**	**$ 3,017,132.21**

Gain on Investment	$ 1,397,132.00
Investment Length	5 Years
ROI	**84.53%**
Annualized Return on Investment	17.10%

Risk Assessment

Risks and Mitigation Plan:

- Lack of financial funding
- Government regulations
- Market acceptance
- Brazilian infrastructure growth/ security
- Unequal income distribution
- Complex tax system
- Unskilled labor force

1. We plan to offset our lack of financial funding by acquiring debt to finance our operations as well as cost reduction in our manufacturing and distribution processes.

2. In Brazil, there are a vast amount of regulations governing the way businesses operate. This system is often complex and can severely hamper the ability to compete as a foreign company against Brazilian companies. We plan to minimize the risks associated with government regulation of foreign companies by incorporating and operating a subsidiary company in Brazil.

3. Market acceptance is always a risk when introducing an unknown product. We are confident that our low cost product will entice every day Brazilians in comparison to the more expensive products currently being offered. Also, we are confident that our target companies for business deals will accept our product because it provides an advantage for them. By offering our low cost product with

their data plans, their sales will increase because it will be much more affordable than the current business practice.

4. The current Brazilian IT infrastructure poses a challenge for our vertically integrated plan. If the government continues to improve the system, the infrastructure will be capable of handling the growing amount of internet users. However, if there is a stall in the improvement of the system, the infrastructure will not be able to handle the needs of Brazilians. Also, there is currently a lack of security in the system which can pose problems if not corrected. We are confident that the government will continue to improve the systems, but as a precautionary measure, we plan on offering our cloud services through cloud farms in the United States. This allows us to reduce security concerns as well as to ensure our services run on a reliable connection.

5. Even though Brazil is a rapidly growing economy, there is still a large gap in income between the rich and poor. This gap will diminish some with the further growth of the economy and the creation of a middle class, but could still limit our sales due to affordability. We are confident that as Brazil grows its economy and increases its standard of living, Brazilians will be more apt to spend disposable income on items such as computer hardware. Our low cost will allow us to appeal to Brazilians wanting new technology, while still limiting their costs.

6. Brazil has a complex taxation system the can make it hard for companies to operate in Brazil. By incorporating in Brazil, we overcome a series of tax burdens that are applied to foreign companies.

7. The unskilled labor force is a risk in our manufacturing process. There is a possibility that the low skill of our Brazilian employees will lead to the production of defective products. We are confident that our employees, with the proper training, will be able to operate our simplified manufacturing line with efficiency.

Appendices

HP becomes leader in computer sales in Brazil

Largest computer maker in the world, HP also now holds the crown of best-selling brand in Brazil, beating the Positive of the post it held for 25 quarters, reports a newspaper. The revelation happened early on Thursday in a meeting with reporters sponsored by the company.

"We were already leaders in sales and now also got highest sales in Brazil said Oscar Clarke, president of the company in Brazil.

"We delivered very few machines to governments for consideration of changes in state and federal leaders," said Helio Rotenberg, president of the company based in Curitiba. "Governments have resumed purchases, was a timely thing," he adds.

Earlier this week, IDC released a survey that predicts that PC sales grow 13% in Latin America in 2011, reaching 36.3 million units. It said netbooks will swim against the tide of the world and expand its share of 29%, while the laptops are to expand its share of the cake at 18%. As for the desktops are expected to increase its sales by only 3%, provides the organ.

Source: http://www.mzweb.com.br/Positivo/web/arquivos/Positivo_FS_1Q11_baixa.pdf

"Foxconn plans to begin iPad assembly in Brazil starting in November" by James Zhang

Foxconn is planning to begin assembling Apple's iPad tablet PC at its plants in Brazil by end-November, according to Aloizio Mercadente, Brazil's science and technology minister.

Reuters reports that Foxconn Technology Group is also considering investing $12 billion in Brazil to assemble monitors, according to Brazil's President Dilma Rousseff.

"Yoʋ′ve got an ample range of investments that go from $300 to $400 million to $12 billion over 5 to 6 years in the case of Foxconn," Rousseff said, speaking of discussions Brazil's government is having with various technology companies.

"They′re proposing a partnership. They came to ʋs and said we want to invest in Brazil."

Source: http://www.appleguider.com/article/foxconn-plans-to-begin-ipad-assembly-in-brazil-starting-november.html

"Mogul aims at luring Apple assembly to Brazil"

A corporate mogul, Eike Batista, is courting Apple with the hope it might be willing assemble products in Brazil, rather than China, a local publication says. *MacMagazine* notes that Batista is looking for companies to occupy 90 square miles at the Port of Acu, a project under construction in southeastern Brazil, valued at $1.6 billion. Batista is the eighth richest person in the world, having accumulated a net worth of $27 billion based largely on oil and mining profits.

The executive suggests that Brazilians would benefit greatly from Apple's presence because they would no longer have to "pay twice what you pay in the United States." Apple might have several motives to stage assembly in Brazil, such as closer proximity to the US. Should Apple not be willing to set up shop in the country however, Batista says he is alternately ready to lure German automaker BMW.

Another incentive to pick Brazil could involve labor controversies. Apple's largest manufacturing partner, Foxconn, has been accused of maintaining sweatshop-like conditions at its Shenzhen campus in China, while offering low wages in return. A string of suicides has plagued the firm; at least 14 have been recorded during 2010.

Source: http://www.macnn.com/articles/10/11/17/bmw.seen.as.backup.option/

Telecom Analysis

Telefónica Group

Telefónica's largest fixed-line operation in Latin America is in Brazil where it provides broadband, local and long distance telephone services in the state of São Paulo. It also jointly owns the Brazilian wireless operator VIVO with Portugal Telecom. The Telefónica Group has been in the country since 1996 when it acquired CRT, a fixed-line and mobile operator in the southern part of the country. The landline division is currently part of Brazil Telecom. The group presented in the 3rd trimester of 2006 the biggest revenue, but also the biggest debt. The debt Telefónica grew in € 23 Billion in 2006 with the acquisition of Group O2 composed by many mobile operators in Europe.

Source: www.teleco.com.br

América Móvil/Telmex Group

America Móvil is Latin America's biggest mobile operator, and one of world's largest, with presence in 14 countries and the United States. As of December 31, 2006, it had 124.8 million wireless subscribers and 2 million fixed wire lines in the Americas and revenues of $21 billion dollars last year. Brazil Telecom/IT Industry June 2007 Revenues in Billion of Euros 3Q06 EBITDA EBITDA Margin América

Joint Venture: Oi (Telemar) e BrT

The entrance of Telefônica in Telecom Italia intensified the discussion about a possible joint venture between Oi (Telemar) and Brazil Telecom (BrT). This joint venture would depend on: Changes in the regulation that forbids the joint venture of fixed telephony concessionaires. An agreement between shareholders of these companies, BrT, in special, would accomplished the sale of 38% of preferential shares belonged to Telecom Italia. With the regulation change, Telemar, América Móvil/Telmex and Telefônica could also run to get the control of BrT. Anatel and CADE's (Administrative Council for Economic Defense) approval that would analyze the economic concentration and could impose some restrictions to this joint venture. In this situation the Group of Telefónica (Telefônica/Vivo/TVA) would keep leadership in gross revenue and cellular quantity, Oi/BrT would lead in fixed accesses and broadband and the group América Móvil/Telmex (Embratel/Claro/Net/Vivax) in Pay TV. Although they are strong in the Brazilian market, the group composed by Oi/BrT would be minor than the others. Oi/BrT's Net Revenue in 2006 was US$ 12.7 billions, around 1/3 of the net revenue of América Móvil/Telmex US$ 37.4 billions in the world. The revenue of Telefónica was € 52.9 billion in 2006.

Financial Research

Brazil Income Taxes

Last partial update, May 2011

Individual Income Tax: Brazil's individual income tax rates for 2011 are progressive, from 7.5% to 27.5%.

Personal annual tax rates 2011 (BRL)

Income (BRL)	%
1-17,989	-
17,989-26,961	7.5
26,961-35,948	15
35,948-44,918	22.5
over 44,918	27.5

Note: Nonresidents pay a flat 27.5% tax on income earned in Brazil

Corporate Tax: Brazil's combined corporate tax rate for 2011 is 34%. The tax consists of a basic tax of 15%. There is also a surtax of 10% for annual income of over BRL 240,000, about $ 110,000. Additonal 9% are added for social contribution on net profits.
Capital Gains: Capital gains of companies are added to the regular income.
Individuals: Pay 15% tax on capital gains, dividend income from local companies is tax exempt.

Residence
A foreign company is resident if incorporated in Brazil.
An individual is resident when holding a permanent visa, or a temporary visa with an employment agreement, or even without an employment agreement, when staying in Brazil for more than 183 days within 12 months.

Brazil Tax Deductions

- Losses are carried forward indefinitely. In future years only 30% of the current year taxable income can be set off against the loss.
- Depreciation is deducted using the straight line method. Companies working in 2 shifts can claim 150% of the standard rates, while companies working in 3 shifts are entitled to 200% of the standard rates.
- Companies involved in development of technical research can use accelerated depreciation for tax purpose.
- There is no company consolidation for tax purpose.
- Thin capitalisation rules relating to interest expenses are in effect in Brazil from 1.1.2010.

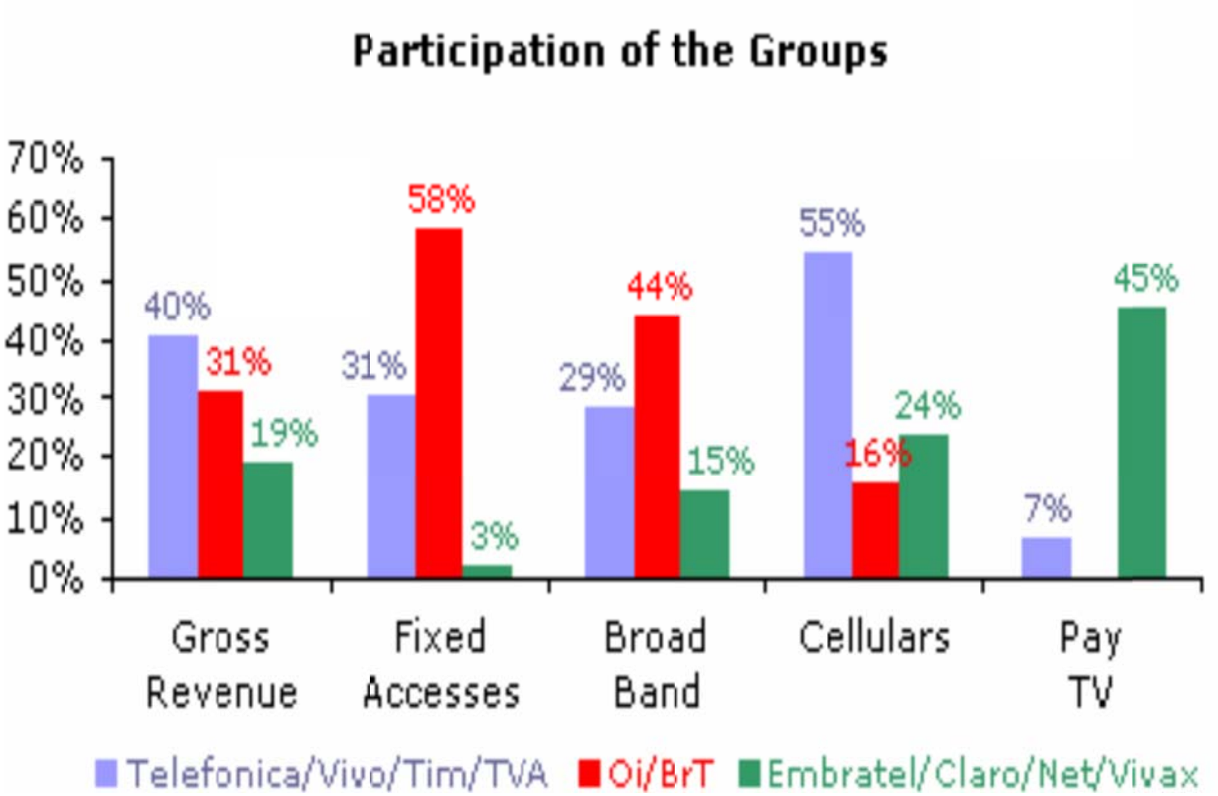
Brazil Personal Credits and Deductions
For Brazilian residents, the first annual income of BRL 17,989 is tax exempt.
There is a standard monthly deduction for each dependant.
Education expenses are deductible, up to a limit.
Deductions are also permitted for social security payments by an employee, payments to private Brazilian pension plans, up tp a limit, and for alimony payments.

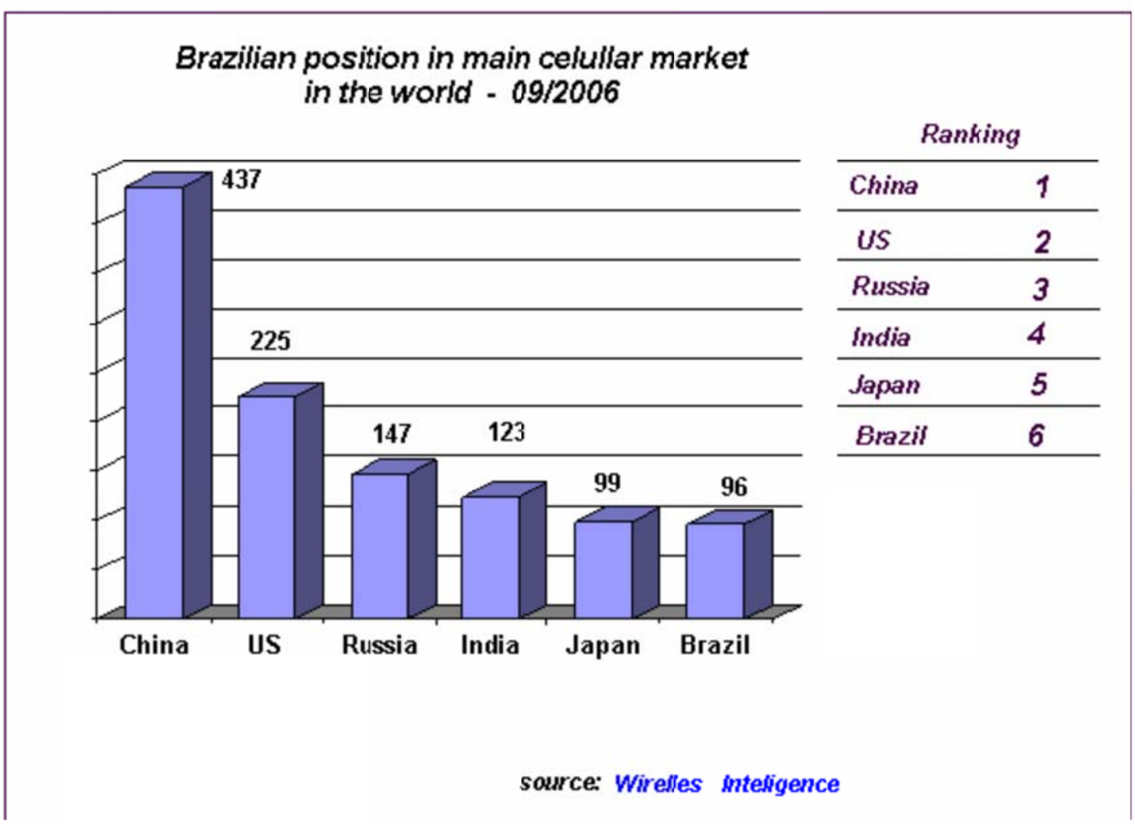
Deduction of Tax at Source
In Brazil tax is deducted at source from the following payments to non residents:
Dividend- 0%.
Interest- 15%/25%.
Royalties- 15%.
Services -15%.

Social Security
The contributions by the employer and the employee are subject to to ceiling defined by law.

Employer: 37.3% of the gross salary, 28.8% social security and 8.5% for severance fund.
Employee: 7.65%-11% of the gross salary. The employee's payment, which is capped, is based on a "contribution salary table", provided by the government.

Charts and Graphs


Participation of the Groups
70%
60%
50%
40%
30%
20%
10%
0%
58%
55%
44%
45%
40%
31%
31%
29%
19%
24%
16%
15%
3%
7%
Gross Revenue
Fixed Accesses
Broad Band
Cellulars
Pay TV
Telefonica/Vivo/Tim/TVA
Oi/BrT
Embratel/Claro/Net/Vivax


Brazilian position in main celullar market
in the world - 09/2006
437
225
147
123
99
96
China
US
Russia
India
Japan
Brazil
Ranking
China 1
US 2
Russia 3
India 4
Japan 5
Brazil 6
source: Wirelles Inteligence

Telefonica Market

Telemar Market

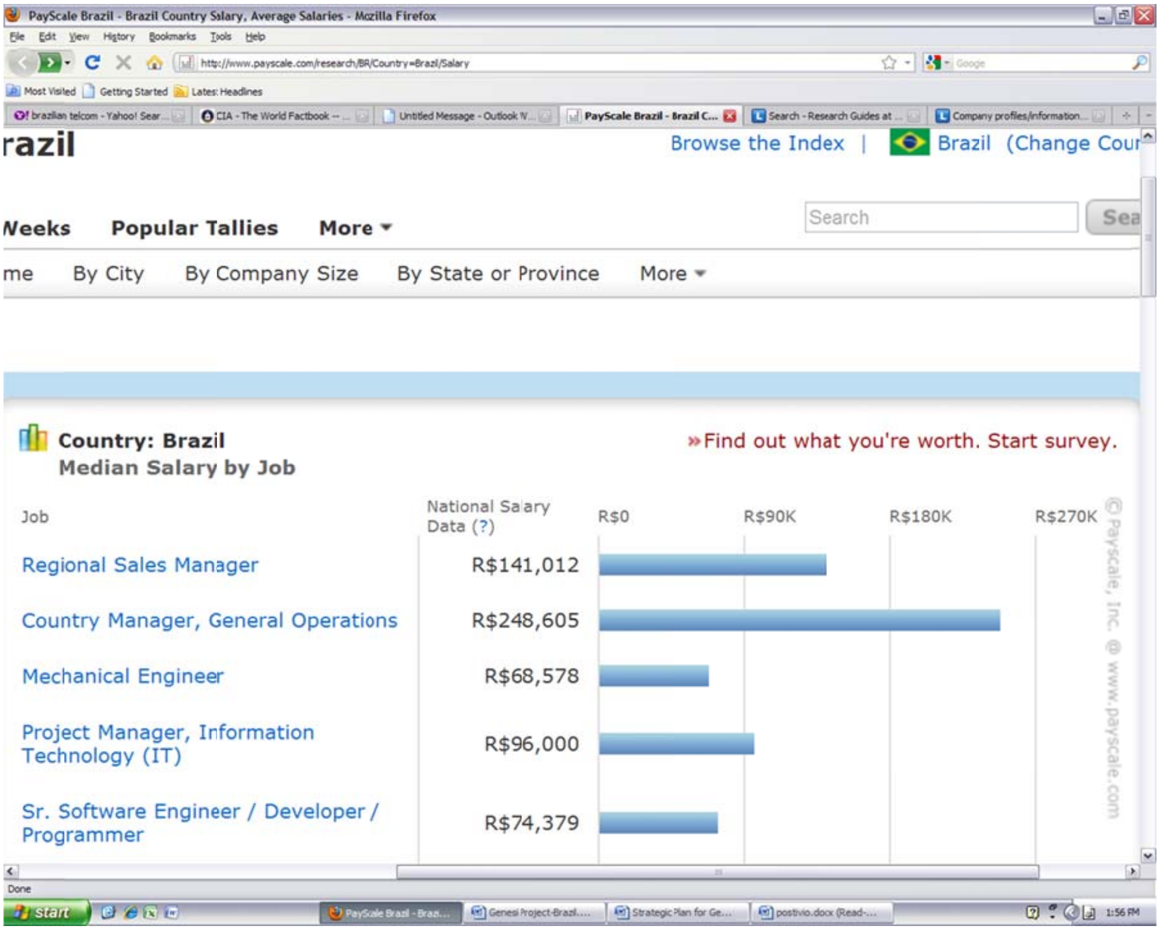
Telmex Group Market

Telefonica Group

3Q06 Billion Euros	Revenue	EBITDA	EBITDA Margin
Telefonica Latin America	3.0	1.5	48.7%
Telefonica Espanha	2.4	1.1	48.0%
Telefonica Moviles	4.7	1.8	38.0%
Group O2	3.6	1.0	28.9%
Group Telefonica (total)	13.7	5.4	3960.0%

Telmex Group/America Movil

3Q06 Billion Euros	Revenue	EBITDA	EBITDA Margin
Telmex Group	4.3	1.6	36.8%
America Movil	3.2	1.2	38.7%
Total	7.5	2.8	37.6%



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