

THE INTERNATIONAL EXPANSION OF JBS AND A DISCUSSION OF PORTER'S DIAMOND

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ABSTRACT

Drawing on the theories of international expansion and competition, this article aims to discuss the positioning of JBS-Friboi, a 100% Brazilian company that exports meat and foods and which has become a major global player in this industry, with over 140 production units worldwide and over 120,000 employees. After a rapid international expansion in recent years, JBS-Friboi has become the world leader in beef production, and the second largest producer of chicken and third largest producer and processor of pork in the United States (JBS, 2010). The JBS case is typical if analyzed under Porter's diamond theory as applied to Brazil. The advantages arising from the country's natural resources helped create the expertise of JBS and other companies in this industry, culminating in its leadership in this market and reaching a scale which enables it to compete internationally. Despite having achieved this scale and competitiveness through access to natural resources (factor conditions), it will retain its leadership only by creating an innovative strategy that goes beyond increased scale and operational excellence.

Key words: Competitiveness. Agribusiness. Strategy.

A INTERNACIONALIZAÇÃO DA JBS E UMA DISCUSSÃO SOBRE O DIAMANTE DE PORTER

RESUMO

Este artigo tem como objetivo discutir à luz das teorias de internacionalização e competitividade, o posicionamento de uma empresa genuinamente brasileira exportadora de carnes e alimentos que se tornou um grande player global nessa indústria a JBS – Friboi que possui hoje 140 unidades de produção no mundo e mais de 120 mil colaboradores. Esta empresa que se internacionalizou de forma muito veloz nos últimos anos, se tornou líder global na produção de carne bovina, segundo maior produtor de carne de frango e terceiro maior produtor de carne suína nos EUA (JBS, 2010). O caso da JBS é emblemático quando analisado sob o conceito do diamante de Porter aplicado ao Brasil. As vantagens advindas dos recursos naturais no Brasil ajudaram a criar o *expertise* da JBS, e das demais empresas do setor, culminando na sua liderança neste mercado e criando escala para concorrer no exterior. A empresa ganhou escala e competitividade com a vantagem da produção pecuária em recursos naturais (condição de fatores), mas se supõe que para a manutenção da sua posição de liderança é necessária uma estratégia pautada em inovação que transcenda apenas o aumento da escala e excelência operacional.

Palavras-chave: Competitividade. Agronegócio. Estratégia.

1 INTRODUCTION

The primary aim of the current article is to discuss, in light of international expansion and competition theories, the positioning of an entirely Brazilian company in the field of meat and food exports, one which has become a major global player in this industry: JBS-Friboi.

Ever since Michael E. Porter published *The Competitive Advantage of Nations* (1990), in which he analyzes how countries can organize themselves in terms of competitive advantage, the role of organizations and industries in developing and emerging countries has been much discussed. The discussion has special significance in Brazil, insofar as we naturally position ourselves as an economy with natural advantages in terms of climate and soil that are very favorable to agricultural and livestock production. In terms of competition in the marketplace, we have not been compelled to seek more complex and industrialized markets and industries, thereby condemning us to be an eternal supplier of raw material.

The successive international crises of recent years, the increased importance of emerging economies, and a consistent economic policy in Brazil has led to an increase in the relative weight of economies like China, India, Brazil, and Russia on the world scene. Global indicators and listings of companies and of competitiveness attribute more and more relevance to the companies and businesses of these nations (Goldman Sachs, 2001).

Within this context, the idea of studying Brazilian companies that have an edge in the global market and occupy a position of importance are essential elements in understanding how Brazil and its companies can occupy a more relevant space in today's corporate universe.

Illustrating this movement is JBS-Friboi, a Brazilian company that has expanded internationally at a very fast pace in recent years and become a global leader in beef production, and the second largest producer of chicken and third largest producer of pork in the United States (JBS, 2010).

This work aims to discuss the case of a company like JBS and its relationship with the international competitiveness and international expansion models, and the position of the country and Brazilian companies in relation to the exports of commodities and the adding of value to exports.

2 THE JBS COMPANY

2.1 HISTORY

Friboi's history is similar to that of various other companies that emerged in the country, starting with entrepreneurial initiatives and the profitable use of opportunities. Its founder, José Batista Sobrinho (JBS), was a cattle trader in the hinterlands of the state of Goiás, doing businesses with meat packing plants in the city of Anápolis, and started his own butchery in 1953. With improving business and the purchase of some abattoirs, the company developed over the following decades in the areas of cold storage and the raising and slaughtering of animals, under the name Friboi. After significant growth and the beginning of international expansion, it changed its name to JBS in 2006. Today its products range from food, leather, and domestic animal supplies to biodiesel, collagen, and cans and packaging (JBS, 2010).

The international expansion of JBS began with the 2005 purchase of Swift's Argentina division, and later with the incorporation of an American head office and the Australian unit of the brand. The company is present on all continents, with production platforms and offices in Brazil, Argentina, Paraguay, Uruguay, the United States, Mexico, Australia, Italy, and Russia, among other countries. It has 140 production units worldwide and over 120,000 employees (JBS, 2010).

In 2009, JBS consolidated its global protein production platform and diversified operations. With the purchase of Pilgrim's Pride, JBS gained access to the chicken sector, and with the incorporation of Bertin Ltda. in Brazil, entered the dairy, domestic animal feed, and biodiesel sectors. According to *Veja* magazine (2009), it became the largest animal products company in the world, and its 2009 annual revenue of 29 billion dollars placed it third overall in Brazil, behind Petrobras and Vale.

Table 1 summarizes 2009 production in each country where JBS operated. Besides the large share of beef production in Brazil, 45% of the group's total, it is worth noting the large proportion of chicken and pork production in the US units, while the Australian division accounts for the majority of lamb slaughtering.

Table 1: Company and locations of its units in 2009

Daily	Meats				Production/Others		
	Beef	Chicken	Pork	Lamb/Smalls	Dairy	Hyg/Clean	Leather
Country	(head/day) Units	(Thousand heads/day) Units	(head/day) Units	(head/day) Units	(tons/day)	(tons/day)	(leather/day)
Argentina	6700 6	- -	- -	- -	-	-	-
Australia	8690 10	- -	- -	23000 5	-	-	-
Brazil	41200 35	- -	- -	- -	1364	810,2	55600
USA	28600 8	6900 29	48500 3	4500 1	-	-	-
Italy	3000 3	- -	- -	- -	-	-	-
Mexico/Puerto Rico	- -	667 4	- -	- -	-	-	-
Paraguay	1000 2	- -	- -	- -	-	-	-
Uruguay	1100 1	- -	- -	- -	-	-	-
Total	90290 65	7567 33	48500 3	27500 6	1364	810,2	55600

Source: JBS (2010).

Reinforcing its status as a global company in the main importing market for meat, in February 2010 the group opened new facilities in the outskirts of Moscow (Infomoney, 2010). In Brazil, the processed beef industry, like other sectors, is seeing consolidation in order to compete globally. With tight margins and the need for increasingly higher economies of scale, there is a strong impulse towards the incorporation of companies and an increase in production volumes. Furthermore, as previously described here, strategies of diversification and vertical integration of activities are being put forward to ensure company results.

According to Exame magazine (2008), the acquisition of factories abroad makes possible, among other advantages, the establishment of value chains, which benefit direct exports of Brazilian meat to countries where inspection and trade restrictions are imposed on the marketing of Brazilian products. The possibility of exports opened with the devaluation of the real in 1999, increasing relative competitiveness as a function of the exchange rate, which in turn permitted business capitalization and strategies of growth and acquisitions, including internationally (Isto é Dinheiro, 2009). Another key element was the strong financial support, through financing and lines of credit, from the Brazilian Development Bank (BNDES), which capitalized the company and allowed it to go public on the New York Stock Exchange and to acquire the American companies Swift, which had a turnover of US \$2.8 billion, and Pilgrim's Pride (Exame, 2008).

In Brazil, the strongest competitor of JBS is Marfrig, which acquired Seara Alimentos from Cargill for US \$900 million and also became the strongest competitor of Brasil Foods (BRF), a product of the merger of Sadia and Perdigão in 2009 (JBS, 2010). With the incorporation of Bertin in Brazil; the purchase of Pilgrim's Pride; the acquisition of 50% of the Italian company Inalca's beef slaughtering and processing operations; and the purchase of three other competitors, National Beef and Smithfield Beef in the USA and Tasman in Australia; and with investments reaching US \$3.5 billion, JBS became the largest beef processor on the planet, with revenues of US \$25 billion, a growth of 1100% in relation to their 2006 income of US \$2 billion (Exame, 2008).

Despite the volume achieved by the company, the industry has not traditionally offered large margins. In 2007, when it expanded to the capital market and only had activities in Brazil, the company's net margin was 1%. After all the acquisitions it showed a margin of negative 5% in 2008, which led shares to a 30% loss. The company, once valued at US \$14 billion, is now worth half that price (Exame, 2008). Other factors hurting the company's profitability are its large size (and its costs to remain profitable) and the assumption of the liabilities of its acquisitions, particularly the American ones, which had substantial debts on their balance sheets. In addition to financial problems, in 2008 JBS had to deal with the typical challenges facing companies venturing abroad, namely adapting to the business style and culture of other locations, for instance facing the reaction of American cattle raisers who tried to influence antitrust agencies against the Brazilian company, and having difficulties in its relationship with Muslim workers during Ramadan.

Another element that added complications to the complex nature of this industry was the economic slowdown. According to *Veja* magazine (2009), it was hit by an idle capacity of 43% (having a slaughter capacity of 70 million head of cattle, but only slaughtering 40 million). During the resulting increase in the market price of cattle, JBS drew attention for its aggressiveness, accepting the higher prices and dropping its margin. The argument behind this was that the company would come out strengthened (and with a larger market share) when the balance between supply and demand was restored. With the end of this low-profit cycle, the company has seized the opportunity to expand its markets and increase profitability.

The decision of JBS to grow quickly outside the country was understood as a strategic one. Before acquiring facilities abroad, JBS-Friboi was prevented from selling meat in regions that imposed restrictions on Brazilian exports, such as the European Union and Japan. In 2008, 22% of the group's sales came from Brazil, whereas more than half originated in the American facilities (Veja, 2009). On the other hand, the price paid will be lower because the American market is dominated by five companies and the margin of operating profit is no more than 5% (Veja, 2009).

The financial statements in Table 2 show the company's growth in net revenues in recent years. However, the series of acquisitions begun in 2007 did not bring the best results in terms of the EBITDA margin,¹ reflecting the fact that at least some of the companies acquired still need to be optimized and streamlined with the JBS group so that it can return to pre-2007 profitability levels. It must be noted that according to JBS (2010), 78.0% of its net revenues came from the USA, whereas only 15.7% originated in Brazil and the remaining 6.3% came from the other countries where JBS operates (<http://www.slideshare.net/jbsri/rao-2007>).

Table 2: Fiscal year ended 31 Dec., 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2001-06	2006-09	2001-09
	R\$ million (Except operational data and percentages)									CAGR	CAGR	CAGR
Net revenues	1212	1289	1912	3501	3709	4302	14142	30340	34312	28,80%	99,80%	51,90%
EBITDA (1)	66	147	165	327	399	548	602	1156	1285	52,70%	32,90%	44,90%
EBITDA Margin (%) (2)	5,40%	11,40%	8,60%	9,30%	10,80%	12,70%	4,30%	3,80%	3,70%	-	-	-
Slaughter capacity (thousand head/day)												
Beef	5,8	6,8	9	13,1	17,4	19,9	51,8	65,7	73,5	28,00%	54,60%	37,40%
Pork	-	-	-	-	-	-	48,5	48,5	48,5	-	-	-
Lamb	-	-	-	-	-	-	19,5	19,5	19,5	-	-	-
Chicken	-	-	-	-	-	-	-	-	-	-	-	-

Source: JBS (2010).

From this perspective, the company today faces the challenge of maintaining its top position worldwide as a beef processor and holding its second and third positions in chicken and pork processing, respectively; managing a gigantic structure on almost all of the continents; and seeking improvement in a commodity sector where volume and scale are essential in the recognition of results.

¹ EBITDA—Earnings before interest, taxes, depreciation and amortization—refers to net gains of the business less tax, interest, depreciation and amortization.

On the other hand, given the increasingly strong demand for food worldwide, Brazil's significant competitive advantage, and its access to global markets, wouldn't it be interesting for the company to launch efforts to consolidate differentiation and innovation in the field of food production which would privilege not just volume, but also technological innovation?

The following paragraphs will attempt to justify a strategic approach to creating the conditions for innovation, differentiation, and a better use of the synergies and gains of scale in the food segment of JBS.

3 COMPANY COMPETITION AND INTERNATIONAL EXPANSION

3.1 COMPETITIVE AND COMPARATIVE ADVANTAGE

Competitiveness, competition, and globalization are very current themes in the analyses of companies and countries. In "The Competitive Advantage of Nations" (1990), Michael E. Porter develops a theory of competitive advantages, according to which nations develop differentiating capacities and competences that give them an advantage in competing in certain sectors when compared to other countries. This theory bears a clear analogy with the economic concepts that Ricardo (1817) published in his 1817 book *On the Principles of Political Economy and Taxation*, where he conducted a study comparing wine production in Portugal and textile production in England, stating that the relative cost of producing wine in Portugal was lower than in England, and vice-versa for textiles, which would imply a comparative advantage for each of the products between the countries. Some nations have better conditions for producing certain products rather than others, as a function of natural (soil, climate, etc.) and social conditions.

For his part, Porter (1990) analyzes aspects of the internal development of companies and builds a model of entrepreneurial decisions based on two elements: on the one hand, a company's position within its industry can differ from that of others. The modern theory of industrial organization has always taken into consideration the possibility of the existence of companies with different cost structures or market power. However, on the subject of trade principles, Porter (1986; 1992) starts to develop business strategy models based

on the asymmetrical positions of companies in their industries. Based on the positioning analysis, one can prescribe optimal business strategies for this company. This approach applied to nations contributed to the analysis of supply chains and clusters.² Thus, strategic analysis interpreting the process of a company's international expansion has as its core analysis unit the value chain involved in this international expansion process (Porter, 1992).

The result of applying this methodology, conceived for companies, to countries (Porter, 1990) is that one develops a location model for the production matrix based on the logic of clusters. In this regard, the production process is broken down into steps to form the so-called supply chains. Each production link is analyzed individually, so that the alternatives of integration become the critical variables. In the process of vertical integration, the company itself fulfils more processes encompassing the production of goods and services. In horizontal integration, companies offer similar goods and services to different supply chains.

In the case of JBS, after directly analyzing the question of all activities connected to the agribusiness—climate, cost, labor, land availability and fertility—one can state that Brazil has comparative advantages in relation to other countries.

3.2 GENERIC STRATEGIES

Michael Porter (1986) asserted that strategic positioning in the market is fundamental to a company's success, regardless of the market where it operates. He suggests that a company can hardly succeed without clearly defining and communicating its strategy. Competitive advantage primarily emerges from the value a company can create for its buyers and which surpasses its manufacturing costs (Porter, 1992). A company can choose among three generic strategies aimed at gaining competitive advantage: cost leadership, differentiation, and focus. In the first case, the company seeks market leadership based on lower production and supply costs for its products. The second is based on differentiation and creation of a product distinct from that of its competitors,

² According to Porter (1990), a cluster is a concentration of similar and related firms within the same sector.

creating a new demand. The third generic strategy entails a focus on a consumer market or segment. In this last case, the competitive arena is not the wide or total market, but a niche, segment, or part of it.

3.3 THE DIAMOND OF COMPETITIVENESS

Transcending the analysis of entrepreneurial strategy and the acquisition of competitive advantages for nations, Porter (1990) introduced the concept of the competitiveness diamond, also known as Porter's diamond. According to him, competitiveness should be related to a nation's or region's standard of living. Thus, to understand and measure competitiveness, one should understand what determines this standard of living, and this is determined by the productivity of its economy.

Countries are competitive through their industries and services created and offered. The model prior to Ricardo (1983) preached that prosperity arose from a competitive advantage in natural resources, but did not consider that there are countries with similar degrees of wealth, or even equality in productive terms, effectively decreasing the advantage. Natural resources are only as important as the productivity level that a company or country can achieve by using them. In other words, the way a country benefits from its resources, how opportunities are created, and how government intervenes are key elements in the competitive position of countries. The way in which society is organized, the economy is run, human resources are trained, and the physical and social infrastructure composed are factors that better define a company's capacity to compete with advantages in global markets.

Wealth, in this case, is created by companies able to offer valuable goods and services and trade them in global markets. Local and organizational arrangements, or clusters (Porter, 1990), gain key relevance, insofar as it is within these groupings of companies and businesses that competences, synergies, and—most importantly—innovation will develop, which will make these goods and services useful and competitive in the global market. The logic of the forces interacting reflects not only the conditions of the factors that result from natural resources, but the related and supporting sectors; the strategies and rivalry structure in the companies; and the demand conditions, internal and

external, which insist on quality, innovation, and service level (Porter, 1990), which in turn fosters the innovations and competitive advantages that this national structure can create. Figure 1 shows Porter's original model (1990):

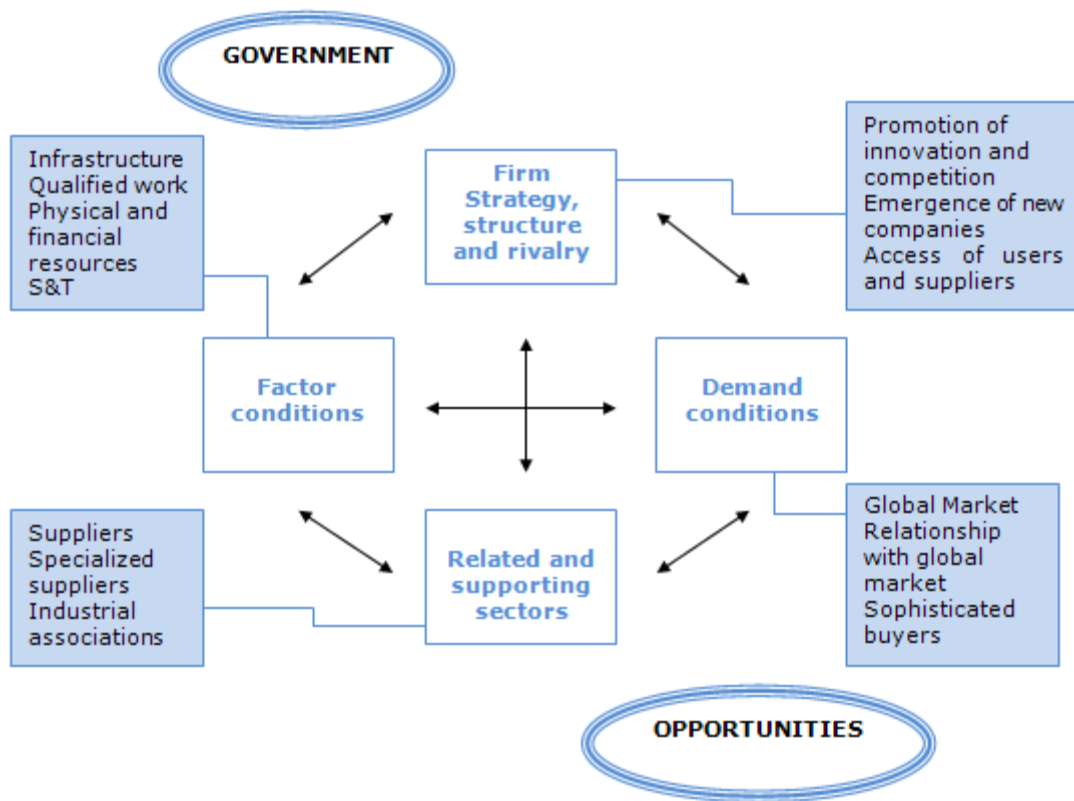


Figure 1: Porter's Diamond

Source: Porter (1990).

By and large, the world's regions can be sorted into three distinct phases, ranging from the mere use of extant resources, in general originating from comparative advantages, using only the existing human, natural, and capital resources which support that market dynamic. In phase 2, supporting and related industries and service and input industries are very present and the main characteristic is innovation in the cluster; as observed by Porter (1990), it is a phase that encourages the development of technology and competitiveness. In a transition to the third phase, companies provide for domestic clients, and through international expansion—in general by exporting—service other nations and clients with different opinions, tastes, and competitors, which requires domestic companies to make a huge innovation effort in terms of quality and

competition. Finally, in the third phase proper, there is strong competition in global markets, and in this context value generation for the country or simply for the sector occurs effectively. Porter (1990) highlighted the importance of comparing the absolute cost of each factor with the same type of cost incurred by foreign rivals.



Figure 2: Adaptation of Porter's Diamond Model and its phases

Source: Porter (1990).

The four elements of the diamond interact with and influence one another. Factor conditions concern the endowment of natural resources necessary for a nation to compete with others—including human, material, capital, and infrastructure resources. Demand conditions refers to the quality of the domestic market. If, for instance, this market is exacting and sophisticated, it will be easier for a country's companies to obtain competitive advantages in relation to the others, because that sophistication stimulates the improvement of goods and processes, as well as innovation. Related and supporting industries refers to the situation of similar industries and suppliers. The presence of competitive suppliers in a country enables efficient and quick access to required inputs, in addition to better coordination and enhancement of the production

system. The strategy structure and rivalry of companies refers to the environment where companies are created, to the way they are organized and managed, as well as the way internal rivalry plays out. An environment of competition and rivalry among companies corresponds with an increase in competitiveness insofar as it fosters the development of strategies that improve company efficiency and reduce the cost of living for society as a whole.

3.4 THE NETWORK OF VALUE AND INTERNATIONAL EXPANSION

Brandenburger & Nalebuff (1996), cited by Ghemawat (2000), brought new participants to this analysis, not acknowledged by Porter. These authors emphasize the critical role that complementary agents can play in contributing to the success or failure of companies. Complementary agents are those from whom clients purchase complementary services or goods, and to whom suppliers sell complementary resources. They are defined as the competitors' image: on the demand side, they increase buyers' willingness to pay for the inputs; on the supply side, they reduce the price suppliers demand for their inputs. These authors state that thinking in terms of complements is a novel way to think about business: it is about finding ways to increase the size of the cake instead of fighting against competitors over a fixed slice.

Ghemawat (2000) considers that complementary agents are particularly important in situations where companies are developing entirely different ways of accomplishing things, or when standards have important roles in combining very different types of knowledge into systems that work well. Thus, industries of the so-called New Economy can provide a host of examples in which complements play a key role.

When this concept of networks is expanded to a global scale, the number of complementary participants can be infinite and the arrangements follow the same proportion. One of the pioneering groups in studies on internationalization were scholars from the Nordic School, later named Uppsala (Teixeira, 2010),³ who resided in countries where the internationalization process was natural by

³ Uppsala school is a generic denomination for the group of scholars who studied the concept of internationalization in the 1960s and how it occurs in companies. Depending on the moment or the group involved it is also known as the Nordic School.

virtue of territorial and market limitations. One of the most relevant concepts in their studies is that of relationship networks, focused on the relationships extant between companies and industrial markets (Hemais; Halal, 2003). This approach does not exclusively address economic factors, but also cognitive and social linkages between the network players. Both personal and business relationships could be used as connections to other networks. From the viewpoint of the network, the business context is largely based on specific relationships with other actors.

In this sense, the competitive forces and factors in highly internationalized industries would create a heterogeneous pattern of entry opportunities. This heterogeneity would motivate firms to choose markets and entry strategies by accessing relationship networks in new markets, different from the traditional export model outside the Uppsala School of representatives and unit implementation. Aharoni (1966) starts from the theory delineated by Cyert and March (1963) of the Uppsala School, and states that rarely do investments abroad obey structured and sophisticated decision-making processes. The idea of the network is part of an evolution in which the international expansion process can become more complex.

This theory suggests that a company's degree of international expansion does not depend only on the resources allocated abroad, but also on the degree of international expansion of the network in which the company has a holding. Thus is created the concept of heterarchy (Hemais; Halal 2003), according to which in order to be globally efficient each unit of a multinational should share information about the corporation as a whole, as well as have access to detailed information about its other units concerning available resources and needs. In this type of organization, the traditional functions of the head office are dispersed among various units, and foreign subsidiaries can play strategic roles. Global integration occurs through culture and ethics, corporate culture and personal network control tools being more important than the hierarchy itself or the formal processes.

The firm is a social community acting as an efficient mechanism to create and transform knowledge into economically profitable products and services. International firms thus emerge not as a result of market imperfections, but as a function of their efficiency in transferring knowledge beyond borders. Several

theoretical approaches by this school studied the numerous means of entry into foreign markets including: by choice (exports, licensing, and production subsidiaries); contract management (joint-ventures and others); and operation types based on initial entry (exports, licencing, joint-ventures, sales subsidiaries and manufacturing facilities).

Some degree of importance is also accorded to the entrepreneur, which replaces the term key decision-maker. The entrepreneur (Schumpeter, 1982) no longer occupies a key position in the firm's formal hierarchy, but introduces new products and new modes of production and seeks new markets and new sources of production and raw material. The entrepreneur is the one who acts to begin the international expansion process within the organization.

4 A STRATEGIC PROPOSAL FOR CONSOLIDATION IN THE COMMODITIES SECTOR

Based on the approaches previously considered, it is interesting to evaluate the position of JBS and its move toward international expansion in search of scale. The idea of obtaining scale is a natural one, particularly because of the nature of agricultural commodities and the definition of economies of scale:

...is characterized by gains obtained by expanding the production of a certain good or product—if a company invests in increasing production it will manage to produce the same product at a greater quantity and lower average cost, i.e., the larger the production, the lower the costs tend to be (McGuigan et al. 2004, p. 168,169).

According to Paul Krugman (1994), the size of the market is essential in determining a country's advantage in trade relationships compared to other countries, but the geographical location of the firms inside a country also takes into account the opposition between economies of scale and costs of goods transportation. Once again, the premise fundamentally fits the agribusiness sector.

The problem related to the unstoppable search for scale, volume, and production is that there will be a limit to available resources, whether land, technology, or human, and whether companies are willing to be acquired or united through joint ventures for the specific and exclusive purpose of extending

the operation. On the other hand, diseconomies of scale also exist, derived from the extreme growth of operations beyond a level of constant profitability and returns. Such diseconomies can be attributed to operational and legal difficulties in merging; the existence of liabilities and legally contentious issues; and even the cultural and natural challenges of the normal process of national acquisition, or the learning curve in the process of international expansion (Johansson & Vahlne (2001). These difficulties are generally translated into transaction costs (Coase, 1937), which do not only and exclusively result from productive activity, but are also related to the transactions in the process.

In transcribing the JBS case to Porter's competitive analysis, the agribusiness sector still primarily provides for external and internal clients that demand food. The differentiation, in this case, is much more related to consumption itself than in the way food is produced in the countryside. There are differentials, and some authors try to question the issue of commodities: certified products, produced and inspected under pre-established conditions, would not be commodities, but rather would be differentiated. Escaping a little from the discussion, the generation of innovation in products is not trivial (biotechnology and genetic improvement, for instance), but the generation of innovation in the process, be it production, transportation, or processing, is more efficient and cheaper.

However, persistence in the search for scale would position the Brazilian and world beef sector exclusively in phase 1, relying on abundant natural resources, some related industries, and production for external and internal markets. An effective position in the third phase would be missing—in rivalry, competition, and innovation.

In this field JBS itself does not present innovation as a key element in its strategy: the focus is almost entirely directed towards growth and scale. The report available for 2008 is transcribed below:

JBS' sound performance and its growing productivity rates allow it a constant growth and constant improvement of its operational margins. The aim of JBS' strategy is to:

- ✓ Remain a global leader in the beef market;
- ✓ Increase its profitability and financial soundness;
- ✓ Ensure the perpetuity of its business.

To ensure this target, JBS adopts a strategy based on the following principles:

- ✓ Search for investment and acquisition opportunities;
- ✓ Sound financial structure;
- ✓ Experienced and efficient management team;
- ✓ Relentless search to reduce costs;
- ✓ Increased productivity and expansion of its participation in more profitable, value-added products, which maximize the company's profitability;
- ✓ Search for better margins;
- ✓ Diversification of its production platforms (JBS, 2008, p.36).

In the report which follows, the chapter on innovation is four pages long out of 104, and the theme of innovation is addressed in relation to quality and the construction of strong brands.

A possible consolidation strategy for JBS within this context would be to use all this accumulated knowledge in national production and its experience abroad to develop an innovative base in Brazil. By channeling the limited resources of the "endless" search for volume and scale to the differentiation of products and processes in the Brazilian livestock sector and applying this development to strengthen the national clusters; increase and enhance related and supporting industries; integrate the cutting-edge research of agencies such as the Brazilian Agricultural Research Corporation (EMBRAPA, the national Institute for Research in the Amazon), it can position Brazilian agribusiness not as a mere commodity market (1st phase of the Diamond), but as an innovative and extremely competitive sector.

5 CONCLUSIONS

In terms of what Porter's analysis (1990) sees as fundamental to the development of competitive advantages for a nation, Brazil's agribusiness and livestock sector has a discernible comparative advantage, from which competition mechanisms should be developed based on its clusters. The

advantages arising from natural resources in Brazil helped create the expertise of JBS, as well as that of the other companies in this industry, culminating with its market leadership and the creation of scale to compete internationally. The volumes obtained and the companies acquired generated the growth and the leadership in the market, but the challenges connected with international expansion and the management of units in other countries set forth new obstacles for a group that seeks efficiency in its processes so as to preserve its profitability.

Today, in addition to a search for greater scale, new acquisitions, and cost reduction, JBS is beginning to seek products and markets with higher added value (JBS, 2010). This movement cannot yet be interpreted as the start of a phase that emphasizes differentiation. For that to happen, it needs to optimize its operations to take the group to more interesting levels of profitability. Besides that, caution is necessary before offering value-added products in an environment witnessing aggressive cost reductions, which can lead the company to a position designated by Porter (1990) as “stuck in the middle”, in which strategic positioning lies in an undefined position between low cost and differentiation.

However, differentiation must be sought in a mid-term period, emphasizing the concept of innovation that should be added to the company’s strategy to support the maintenance of its world leadership in the industry. Such strategy should be employed to address new options and creative ways to improve its products and its units, taking the company to a new level where it will not be limited to a mere fight for price and scale.

Based on the knowledge that margins are very low—and declining—and allied to the possible diseconomies of scale of such a large and decentralized company, with effective operations in various countries involving many cultures, plus the cost related to the learning and development of international relationship networks, the search for innovation in products or processes should be central to the strategy. Moreover, making good use of the benefits that the Brazilian comparative advantage can bring in terms of volume and resources can be determinant in ensuring a more favorable competitive position related to investments in technology and innovation.

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