**THE IMPACT OF THE CURRENT INTERNATIONAL ECONOMIC ENVIRONMENT ON THE COMPETITIVENESS OF THE TARKETT GROUP AND ITS PERSPECTIVE FOR EXPANSION IN THE BRAZIL**

**EXECUTIVE SUMMARY**

This purpose of this paper is to analyse the impact of the current international economic environment on the competitiveness of the Tarkett group and its perspective for expansion in Brazil. It evaluates the Tarkett business model of M&As utilizing its strong cash flow and diversifying its portfolio.

The factor of profitability and competitiveness allows Tarkett to expand to Latin American markets with consideration for CSRs and business model expansion.

It first evaluates the competitiveness of Tarkett applying the theories of international and the economic risk associated with expansion of operations in Brazil. It then identifies the main development factors of uncertainty in the international macroeconomic environment and discuss their impact on the company’s future.

**INTRODUCTION**

Tarkett is a manufacturer and distributor of carpets, sport surfaces and flooring for commercial and residential sectors. It is a world leader in flooring and sport surface solutions. Its products range from Vinyl & Linoleum, commercial carpet, sports, wood & laminate and Rubber Accessories. Vinyl & Linoleum accounts for over 46% of its total sales in 2020. The company has its headquarters in Paris, France. it has 33 production sites in countries worldwide: Europe, Turkey, North America, CoomonWealth Independent States, China, Brazil, Australia etc, over 24 research and development laboratories,1 research & innovation centre, 4 design centres, 33 industrial sites, 9 recycling centres, more than 150 patent families are active in 42 countries worldwide and networks of internal experts and methodology with many scientific partnerships worldwide.

Its net sales spurs to over Euro2.6 billion with more than 12,000 employees all over the world operating in over 30 countries and 40 nationalities. In 2020, 31% of its sales came from Europe, Middle East and Africa, 27% from North America, 20% from the commonwealth independent states while just 22% from sports. By Geography, North America accounts for over 45% share of its total sales while Europe, Middle East and Africa accounted for 35% sales. Its netsales hovers around Euro1.2billion and Euro702 million in the first half and 2nd half of 2021.

It has won projects in different sectors like Education, Healthcare., Workplace and Hospitality. It takes pride in leading in the production of Vinyl and sells over 1.3 million metre-square of flooring everyday in over 100 countries. It is the 3rd largest flooring supplier in the world. Most of its sales are driven by renovation rather than new construction. Its market segments are majorly commercial business but grow selectively in residential flooring as the world changes. Its target markets are majorly the health and aged care homes, education, workplaces, hospitality businesses, sport and residential.

Tarkett experienced growth in residential businesses and a soft recovery growth in commercial businesses mostly driven by healthcare and education. Workplace, hospitality and sports had a slow growth in the first half of 2021. the growth experienced was driven by sales from CIS, APAC and LATAM countries, followed by EMEA countries. The sport industry has negative growth in the first half.

In the second half of 2021, North America countries led the growth in sales, followed by the EMEA countries; the sport industry dipped further.

The organic growth of 20.1% and 26.7% in the first and second half of 2021 was driven by increase in selling price as an offset for depreciation in Russian ruble and inflation in the purchasing power and freight cost. In Latin America specifically, growth was driven by LVT sales in Brazil and selling price increase. However, sales was poor in the Workplace and Hospital sector in 2020 but it recovered in 2021 and the growth in residential businesses was sustained in 2021. Sales growth is expected to be above the GDP growth in key regions and adjusted EBITDA to be greater than 12% till at least 2022.

It has a diversified suppliers from international key raw materials to local suppliers; a diversified B2B2C clients present in over 100 countries. It engages with local communities closer to the industrial sites and its energy sources are majorly from renewable and non-renewable sources, raw materials, recycled and virgin sources.

Tarkett group has over 89.98% participation in the total share capital and 89.98% exerciseable voting right as of December 31, 2020. the family has more than 50% total share capital.

It success has been built on core values: integrity, ethics, transparency, diversity and respect for the environment. It seeks its competitive advantages through superior performance and the quality of its products. It understands that a lack of competition threatens the good functioning of the economic system. It believes that fair competition increases competitiveness, allows open and dynamic market; drives productivity, innovation and it is good for the consumers because it leads to lower prices and wide choice of products. It understands that breach of competition law could be a reason for termination of contract and as such prohibits any agreement that could have anti-competition effect.

Tarkett, a French public limited liability company established about 140 years ago, has evolved from producing a single product to different brands and is committed to a sustainable, circular economy that creates value for everyone, closing the loop on waste, preserving natural resources and reducing our impact on climate change through an eco-innovation strategy based on cradle on cradle principle, fully aligned with Tarkett’s Human Conscious Design approach. It is listed in Euronext Paris. The corporate governance processes are directed to ensure uncompromised business ethics, robust and transparent corporate supervision, risk management and regular dialogue with shareholders. It reviews its risk mapping every two years to ensure compliance with regulatory requirements and Tarkett’s policies in order to reducing the risk exposure of the company through internal control processes.

Tarkett’s strategy for international expansion has been through merger and acquisition. According to Dunning 1977, it is possible to predict that the significance of outward fdi will be greater for some countries than for others, simply by knowing about their economic histories, the core competencies of their indigenous firms, the size of their home markets, their experience in foreign markets, and the locational attractions of their immobile resources and capabilities, relative to those of other countries.

Tarkett’s M&A startegies started with the merger of the French company Sommer Allibert S.A. and Tarkett AG. The Group began a strategy of dynamic growth in the flooring industry through a series of acquisitions and joint ventures. As a result, the Group stepped up its activities in Eastern Europe in 2002 and acquired a strong base in Russia with the establishment of a partnership with the Serbian company Sintelon AD, which was completely absorbed by the Group in 2009. In 2004, the Group entered the Sport segment by taking a minority interest in the Canadian company FieldTurf, a manufacturer of artificial turf, acquiring control of that company the following year. At the same time, the Group began to develop its flooring activities in North America, notably with the acquisition of Johnsonite Inc., a manufacturer of resilient flooring and accessories. Since this point, Tarkett has been intensifying its external growth policy and has made a number of acquisitions in the field of sports surfaces which have enabled the Group to establish a position as market leader. The Group has also made various acquisitions in the flooring industry in order to strengthen its position in certain regions and enter dynamic countries in which the Group is not yet present. For example, the Group entered the commercial carpet market in the United States in 2012 with the acquisition of the Tandus group. In 2013, the Group pursued its dynamic external growth policy with the acquisition in 2014 of the Desso group. In 2018, Tarkett also acquired Lexmark Carpet Mills, a manufacturer of high-quality carpets, mainly for the hospitality industry in North America. Since this time, the Group has continued to consolidate its activity in the sports surface sector through targeted bolt-on acquisitions.

One of the strategies of the group is Sustainable growth upheld by an increased focus on a selection of buoyant commercial market segments such as health, education and offices, the development of a global range in the hotel sector and the continued expansion of the sports segment. The Group planned to invest in digital distribution channels in order to harness their future growth. Tarkett intensified its efforts in a number of commercial market segments in which the Group already held a strong position - thanks to a sustained innovation capacity, a varied, comprehensive product range, high technical performance and recognised design quality. The segments which the Group planned to target as a priority include offices, healthcare establishments and retirement homes and education. These were also market segments in which Tarkett could make a difference due to its ability to take part in regional or global calls for tenders which are developing particularly in the office segment. With production sites in Europe, the United States and Asia, Tarkett has the capacity to serve major customers in different regions of the world in which they are present. Tarkett will continue to work innovatively in terms of design and technical performance in order to serve these markets.

Due to the Covid-19 pandemic, in 2020, Tarkett focused its efforts on segments which were likely to benefit from recovery and public investment plans, mainly in the health care/aged care and education segments. The Group also aimed at increasing its market share in segments which were likely to remain fairly sluggish in 2021 such as the office segment, the hospitality segment and sports surfaces.

Tarkett is also working towards a position as leader in in the hospitality segment. The acquisition of Lexmark Carpet Mills in September 2018 has enabled the Group to gain a foothold in a market in which it had limited presence. The Group is now able to promote its comprehensive, global product range in this segment notably to major hotel chains which account for a significant share of the worldwide market. The Group has become a global leader by focusing on solid organic growth and targeted acquisitions. Tarkett is also in the process of launching its range in digital distribution channels in order to harness their growth. Digital platforms are eventually expected to represent between 10% and 12% of flooring sales and Tarkett is keen to gain a foothold as quickly as possible, in particular with chains specialising in DIY. With this aim in mind, Tarkett has developed tools which will help it to stand out from the competition and guarantee a high level of online visibility. The Group is also exploring different solutions for facilitating final mile deliveries, which represents one of the major challenges in online selling. In 2019, the Group tested a number of different solutions in partnership with leading distribution channels with a view to determining which will be the most appropriate to implement. The context in 2020 encouraged the growth of these distribution channels and Tarkett was able to continue to develop in this area. These developments were particularly marked in Europe and the CIS countries.

Tarkett began to simplify its organisation and optimise its working methods in 2019. This trend continued in 2020 and various steps were accelerated in response to the pandemic and travel restrictions. These changes are being implemented throughout the Group as a whole. The aim is to provide the Group with greater agility but also to offer customers unique, smooth access to the Tarkett sales teams and allow marketing and innovation teams to respond more effectively to customers’ expectations.

Tarkett brought together innovation and marketing at the beginning of 2020 in order to develop innovative solutions which fulfil customers’ expectations in the commercial market segments in which the Group wishes to grow as a priority. The Group's ambition is to invest in innovation in order to respond to the growing needs of its customers to develop a healthy environment and unique, modular areas which are easy to maintain and install. The Group has also defined the circular economy and recycling as priority areas for innovation. Tarkett is keen to optimise the value of the materials which it uses and to develop innovative solutions so that the products and solutions offered to customers can be recycled in a complete loop. Tarkett also plans to use technological innovation to multiply the lifecycle of materials and develop innovative collection and recycling solutions. > The Group has an international research and innovation centre located in Luxembourg and a scientific committee made up of internationally renowned internal and external experts.

Research and development activities are being carried out in collaboration with the Operations in view of their effects on production processes. The aim is to increase the efficiency of research and development relating to products and processes taking into account the industrial and supply implications created as a result for the Group. This new organisation should enable Tarkett to increase its industrial efficiency and to be better prepared for technological, statutory and environmental developments.

Tarkett is also planning to optimise synergies in terms of design. The Group has three regional design teams continuously monitoring trends in the various markets. This enables Tarkett to offer products in line with the latest market trends that correspond to customer expectations. The Group is to intensify the exchanges between the three centres in order to capitalise on its global expertise.

Based on this logic of an approach focusing on customers and their requirements, Tarkett has decided to establish a key account management organisations for strategic market segments, notably the hotel and office segments. In these two segments, a global presence and range is a differentiating element for major regional or global customers.

The Group is also simplifying its product portfolio by reducing the number of reference items in each collection. The aim is to reduce the number of references by around 30% whilst developing the sales level. This will enhance the clarity of the product portfolio and reduce the complexity and costs throughout the entire value chain. This simplification process is well underway in EMEA. The number of references for the EMEA zone was down by 13% at the end of 2020. Since July 2019, Tarkett has been working with the support of a new sales force organisation in North America which has been offering a unique point of entry for customers. This reorganisation, which was finalised in the first half of 2019, has gone hand in hand with a transition towards the use of a single brand (Tarkett) in order to enhance the visibility of the Group in the North American market.

Tarkett aims to establish a virtuous model for product design. It is recommending the use of high-quality materials, the responsible management of resources, the creation of areas that encourage well-being and living standards and the reuse and recycling of products and materials. Tarkett’s strategic priority is to increase the use of recycled materials in its production processes. By the end of 2030, it is expected that the share of recycled materials in purchased volumes of raw materials will amount to 30% compared with 13% in 2020. The Group has also set itself the priority of reducing greenhouse gas emissions by around 30% between 2020 and 2030. Tarkett is a precursor in the transition towards the circular economy model in the flooring industry. The Group will continue to invest in the development of technologies, turnkey solutions and partnerships which encourage the development of this model. The head of sustainability appointed by the Executive Management Committee in July 2020 is charged with reducing greenhouse gas emissions and stepping up the implementation of circular solutions for customers. He supervises innovation programmes for the circular economy and the creation of associated business models. He works in close cooperation with the operational and marketing departments to ensure that all the teams involved understanding the implications of sustainable development so that these issues can be integrated in all Group processes. Tarkett is continuing to develop industrial processes and technologies so that vinyl flooring and carpets can be recycled more easily. In 2019, the Group announced the launch in Europe of a solution which will help to manage the lifecycle of carpet tiles by developing an innovative process in its factory in Waalwijk (the Netherlands) which separates the two main components of carpet tiles - the backing and the nylon fibre. These components are then recycled and used to manufacture new carpet tiles. The Group is also addressing the problem of reusing and recycling fitting waste and used products. Tarkett draws on its collection and recycling programme, ReStart®. 109,000 tonnes of flooring were collected between 2010 and 2020 within the framework of ReStart® in Europe, Brazil and North America (recuperation of vinyl and linoleum flooring and carpets after installation and use). Tarkett’s aim is to develop this programme worldwide, particularly in Europe and North America, by incorporating increasing numbers of customers and working with the support of strong partners.

A rigorous cost reduction programme has been developed with the aim of generating savings of 120 million Euros between 2019 and 2022 alongside a selective capital allocation policy aligned with strategic sustainable growth initiatives. The cost reduction programme includes the reorganisation of the industrial footprint and a reduction in selling, general and administrative costs. In this context, Tarkett announced and implemented the closure of 4 industrial sites, including 2 in North America. The production of accessories in Waterloo (Canada) has been transferred to the expanded site of Chagrin Falls (Ohio, USA) and the manufacturing of carpet rolls in Truro (Canada) has been transferred to the carpet production factory acquired as part of the Lexmark takeover, allowing for the achievement of the cost synergies planned in the context of this acquisition. Tarkett has also stopped producing laminate flooring in Europe, closing the Eiweiler site (Germany). The Group has shutdown a storage facility in Goirle (the Netherlands) at the end of 2020 and transferred the products to a fully automated warehouse close to the production site in Waalwijk (the Netherlands). The cost reduction programme is also underpinned by the automation of production processes and the World Class Manufacturing (“WCM”) programme, whose effectiveness has already been proven in the past. The acceleration of automation programmes will lead to a reduction in staff costs, an increase in productivity and quality and a reduction in risks of accident. The priority programmes are those relating to automatically guided vehicles, inspection cameras, automated packaging and digital printing. The WCM programme is constantly searching for measures to improve the Group’s productivity. This programme is carried out by a dedicated team travelling regularly to the production sites, comparing and sharing the methods used on each site and helping local teams to put in place the best practices for their operations. This programme also aims to improve product quality, increase productivity, control costs, and provide the best services. Tarkett has established strong governance to monitor the cost reduction programme. The effective implementation of the latter is a key factor in the success of the plan and therefore demands the involvement and on-going monitoring of the general management and the supervisory board. A decision was made in 2020 to step up certain measures, particularly in relation to general and administrative expenses, to adapt to the new economic environment. The action taken has led to the optimisation of the overall cost structure and an increase in flexibility. This programme is accompanied by a selective capital allocation and is aligned with strategic sustainable growth initiatives. For example, the investments relate mainly to security, productivity, automation and the circular economy. The priority for 2019 and 2020 was to deleverage the Group. Therefore, no major acquisitions were made during these two financial years. External growth nevertheless remains a strategic line for Tarkett. The Group is keen to seize acquisition opportunities in order to strengthen its position in market segments or key regions. Targeted acquisitions have to fulfil rigorous financial and extra-financial criteria. Financial criteria are measured after synergies and generally correspond to the positive contribution to the EBITDA margin and the return on invested capital. The main extra financial criteria include cultural appropriateness, management quality and the sustainable development policy. Based on its new “Change to Win” strategic plan, Tarkett has established new medium term financial objectives whose fulfilment will depend on the successful implementation of the plan. The Group draws leverage from its global geographic footprint, one of the largest in the industry. It markets its products to thousands of customers in over 100 countries, having production and sales facilities in Europe, North America, the CIS countries, Latin America, and Asia-Pacific. This geographical location is the result of significant investments made over several years and various acquisitions. This broad geographical coverage is now a key competitive differentiator for the Group over its competitors, and one of the main reasons for its long-term success. The global scale and size of the Group also enable it to pool its research and innovation efforts and make the most of the investments made in these areas. Economies of scale are also essential for the Group, enabling it to reduce raw material purchasing costs (particularly for PVC, plasticisers and polyurethane) and benefit from the best operational practices in different regions.

The Group also has in-depth knowledge of the technical specificities, designs, tastes, and local preferences of users in the major countries in which it operates. It can thus design products perfectly adapted to the needs and tastes of local users, enabling it to distinguish itself from its competitors by its geographical location and knowledge of the markets. The Group has production sites in the main countries in which it operates. This enables it to offer its customers high quality service while reducing delivery times, transportation costs, customs duties, and working capital requirements.-The Group believes its product and technology development capabilities and in-house research and innovation teams are best-in-class, allowing it to provide innovative products that are tailored to the needs and demands of each of its markets, while promoting environmentally responsible solutions that keep it ahead of regulatory and industry norms. It is an eco-innovation pioneer. It demonstrates respect for the environment and the health of people at every stage of the product life cycle is at the heart of the Group’s virtuous circuit design approach, applied to all of its activities around the world by offering ever more innovative products with very low Volatile Organic Compound (VOC) emissions or phthalate-free plasticizers, Tarkett positions itself as a pioneer, influencing industry standards, encouraging a collaborative circular economy, involving all stakeholders in this sustainable approach.

Location of Tarkett in France and Germany are strategic choices based on the economic history of the countries; experience and the core competence of Sommer Allibert S.A. (which was formed out of series of merger and acquisition strategy) in merger and acquisition. Trakett enters a market through strategic asset FDI to protect or augment its existing ownership specific advantages and to reduce those of their competitors. Tarkett organizes the creation and exploitation of their core competencies, given the locational attractions of different countries or regions. Such modalities range from buying and selling goods and services in the open market, through a variety of inter-firm non-equity agreements, to the integration of intermediate product markets, and an outright purchase of a foreign corporation. Tarkett AG enters a market through Foreign Direct Investment rather than by exporting because the net benefit of internalizing cross-border intermediate product markets, is greater than the opportunity cost of doing it as discussed by Dunning (1977). A case of Trakett merger with Sommer Allibert S.A and acquisition of Fademac in Brazil.

The Tarkett business model is integrating value-creative acquisitions and merger with strong cash flows pursuing selective external growth opportunities. Tarkett is the global leader in sustainable and innovative solutions for broadest products in the industry addressing diversified commercial and residential end-markets. In the past, Tarkett was basically manufacturing products in the Europe, export internationally to distributors and special agents who tend undertake delivery. Exporting is always having one barrier to trade or the other. For instance, high duty on foreign products in China, Barriers in North America and Latin America. Exchange rate barrier is another factor. Currencies in the CIS, Africa and Latin fluctuates greatly. Prices had to be increased in 2021 to cushion for the effect of the increased inflation and freight cost due to depreciation of currency in the Developing countries like CIS, Southern America, Latin America and Eastern Europe which could adversely affect sales if demand becomes price-sensitive as it occurs in Africa.

It becomes important to explore FDI to overcome barriers to trade and that Tarkett has competitive advantage in terms of capability, competence and resource. Secondly, the immobile, natural or created endowments, which Tarkett need to use jointly with its own competitive advantages, favor a presence in a foreign, location rather than a domestic one. A case, is the acquisition of a Grass manufacturer in Australia by Tarkett Sport, FieldTurf and Fadermac in Brazil. Strategic asset seeking (SAS) FDI is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries. In intensive industries where more knowledge is required, merger and acquisition activity has been made intensed by global integration. (UN, 1998). Such activity is estimated to have accounted for between 55% and 60% of all new FDI flows over the period 1985 to 1997 (UN, 1998). However in the last two decades, one of the key happenings in the FDI activity has been the need to possess strategic and dynamic ownership advantages. (Dunning, 2000). More particularly, the dramatic increase in cross-border mergers and acquisitions, has reflected the availability and price of assets that firms wish to acquire or tap into to protect or augment their competitive advantages. Internalization theory concludes this, by positing that, a firm will engage in FDI rather than signing any agreement or licensing with another foreign firm in as much as the transaction cost and organising cost of using a third party market in the exchange of intermediate product, information or technology exceeds those incurred by hierarchies.

Exchange rates has a role in affecting the extent, geography and timing of FDI (Cushman, 1985; Froot & Stein, 1991; Rangan, 1998). Exchange rate affects the timing of FDI, also how the acquired asset through FDI has been able to advance the strategic and competitive interest are the critical factors in determining the locational advantages of an MNE (Dunning 2000). Goldberg put it differently, “When a currency depreciates, meaning that its value declines relative to the value of another currency, this exchange rate movement has two potential implications for FDI. First, it reduces that country’s wages and production costs relative to those of its foreign counterparts. All else equal, the country experiencing real currency depreciation has enhanced "locational advantage" or attractiveness as a location for receiving productive capacity investments” Thus, the depreciation should not be accompanied by an offsetting increase in the wages and production costs in the destination country and interest rate parity conditions would not have equalized risk-adjusted expected rates of returns across countries (Exchange Rates and Foreign Direct Investment Written for the Princeton Encyclopedia of the World Economy (Princeton University Press) By Linda S. Goldberg, Vice President, Federal Reserve Bank of New York ). “A depreciation of the destination market currency raises the relative wealth of source country agents and can raise multinational acquisitions of certain destination market assets. To the extent that source country agents hold more of their wealth in own currency-denominated form, a depreciation of the destination currency increases the relative wealth position of source country investors, lowering their relative cost of capital. This allows the investors to bid more aggressively for assets abroad.” Klein and Rosengren (1994) provides an empirical support for this. They show that the relative wealth advantage in exchange rate depreciation exceeds that of wage rate advantage in explaining FDI inflows to the United States during the period from 1979 through 1991.

**COMPANY COMPETITIVENESS - UNDERPINNING AND EVALUATION**

Tarkett has achieved a position in the flooring and sport surfaces compare to its competitors. The flooring and sports surface industry remains highly fragmented and offers numerous opportunities. One of the strategies of the group is sustainable growth upheld by an increased focus on a selection of buoyant commercial market segments and the continued expansion of the SPORTS segment. This is because it understands that Europe is more competitive in the manufacture and supply of materials for sport surfaces. An empirical indepth case study conducted by WiiW reveals that, Europe has revealed competitive advantage in terms of technical know-how and in the production of high-technology intensive products. (Research Report 412 Identifying Revealed Comparative Advantages in an EU Regional Context JULY 2016, Alexander Cordes (NIW), Birgit Gehrke (NIW), Christian Rammer (ZEW), Roman Römisch (wiiw), Paula Schliessler (ZEW) and Pia Wassmann (NIW) ).

Using the UNCTAD’s revealed comparative advantage, EU has an RCA index greater than one in the chemical and plastic related products. This shows that Europe is inferred to be a competitive producer and exporter of chemical related products necessary for Sport surfaces business relative to other countries producing and exporting the chemical for sport surfaces. For instance, Germany and France have RCA 3.7 AND 1.4 respectively in the monofilament chemical used in sport surface while Brazil does not seem to produce this product. It presupposes that Europe has both absolute and comparative advantage in the production and export of monofilament relative to Brazil. This is in line with the Relative Endowment theory (Heckscher & Ohlin theorem) that says that countries have factors of production in different variants. Some countries have more of labour while other have more of machine. This difference could bring about divergent in productivity. Since, factor endowment vary among countries, so would the type of goods vary. Goods differ due to types of factors used to produce it and countries have a comparative advantage in those goods which intensively use resources they have in abundance. This is true of the competitive advantage Europe has over South America. Technology in Brazil is labour-intensive while that of Europe is capital-intensive. Production of monofilament chemical requires special technical know-how and specialized equipment in producing them. We could see that RCA for Dye and tanning extract is greater than that of Europe.

Trakett country-level competitiveness is based on its locational advantage. Tarkett is successful and profitable because it builds on the competitive advantages and endowment Europe has over other nations. Tarkett is able to produce for instance, monofilament in abundance or has comparative advantage in production of the products because Europe has the productive resource to produce them in abundance compare to Brazil.

Tarkett firm-level sources of competitiveness involves delivering outstanding customer experiences by becoming the easiest company to interact with in the flooring industry. The company offers to create value for customers by offering a comprehensive portfolio of acting as the multi-specialist value-adding solutions partner.

**The Porter’s Competitive Advantage Diamond Box summarises the potentials for entry and making [Foreign Direct Investment](https://www.business-to-you.com/terms/foreign-direct-investment/" \t "https://www.business-to-you.com/porter-diamond-model/_blank) decisions into a foreign firm..**

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| --- | --- | --- | --- | --- | --- |
| **Firm strategy, structure and Rivalry** | **Factor condition** | **Demand condition** | **Related and supporting industries** | **Chance** | **Government** |
| * Company strategy * Structure of the organization * Management system * Intense competition between locals and rivalry | * Natural resources * Human resources * Capital resources * Infrastructure * Scientific knowledge * Technological innovation | * Size of the domestic market * Sophisticated and demanding domestic customers * Customers need that anticipate elsewhere | * Presence of competitive related and supporting industries * Domestic suppliers that are strong global players themselves | * Random events * Natural disasters * Scientific breakthrough * Terrorist attack | * Government policies * Industrial regulations * Government role as a catalyst and a challenger |

the European nations top the list of most competitive economies with Germany and France ranking 7th and 15th respectively in the 2019 World Economic Forum global competitiveness ranking while Brazil took the 71st position. This further buttresses the competitive advantage of Europe.

**COMPARATIVE ANALYSIS OF BRAZIL**

Brazil reflects a society that believes hierarchy should be respected and inequalities amongst people are acceptable. The different distribution of power justifies the fact that power holders have more benefits than the less powerful in society. In Brazil it is important to show respect to the elderly (and children take care for their elderly parents). In companies there is one boss who takes complete responsibility. Status symbols of power are very important in order to indicate social position and “communicate” the respect that could be shown. This is the same for the French

In Brazil country people from birth onwards are integrated into strong, cohesive groups (especially represented by the extended family; including uncles, aunts, grandparents and cousins) which continues protecting its members in exchange for loyalty. This is an important aspect in the working environment too, where for instance an older and powerful member of a family is expected to “help” a younger nephew to be hired for a job in his own company. In business it is important to build up trustworthy and long lasting relationships: a meeting usually starts with general conversations in order to get to know each other before doing business. The preferred communication style is context-rich, so people will often speak profusely and write in an elaborate fashion. The french are individualist. Everyone looks after him/herself and the nuclear family. There is no importance given to collectivism.

The dominant values in society are caring for others and quality of life. The French value caring and quality of life more than the Brazilian eventhough, they strive for individualism.

Brazilians are very passionate and demonstrative people: emotions are easily shown in their body language. The french are more assertive; not giving their life to chance and are more diplomatic.

They prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion. They possess a positive attitude and have a tendency towards optimism. In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish. The french are long term oriented as they are thrifty and possess the norm to planning for future

CAGE framework indicates that Tarkett's internal expansion in Brazil presents both the opportunity and the risk for international businesses. CAGE Distance Framework will help Tarkett management to expand by clearly identifying the Latin American countries' culture, economy, and political environments.

France, the host country and Brazil, the destination country have different languages, different ethnicities; different religions and different social norms.

The Brazilian Cultural has been influenced by years of colonialism and immigration waves which has resulted in different social values brought from different part of the world. People from different part of the world: Africa and Europe. As Geert Hofstede explains, Brazilians are flexible and lenient with life compare to the French who tend to be rigid with work and be in control of situations. The french give attention to time and deadlines. While the french likes to dissociate work from personal life, the Brazilian would rather mix it. Brazilians rarely say NO. So, it is better to have an open question to a Brazilian. Expanding to Brazil means that Tarkett must put into consideration the cultural and social difference in Brazil. A Brazilian could feel relaxed and discuss personal issue while working. Also, the products must appeal to the cultural affinity of the people. Products have high linguistic content. Tarkett must design their products to speak the language of the people of Brazil. Products affect cultural or national identity of consumers. Product features vary in terms of size, standards and packaging products carry country specific quality associations and these could bring about barrier to acquisition.

Administrative Distance could also be a barrier to expansion. France and Brazil see not to have a colonial ties and they do not share monetary or political association. the political atmosphere seems not to be hostile and the government policies in Brazil happens to be friendly. The investment regime in Brazil is liberal and foreign businesses could have a moajor share in companies in Brazil. However, going by the nature of one of the products of Trakett - sport surfaces, there may be some level of influence of government if many of Tarkett’s business revolves around sport surface renovations and construction.

Geographic Distance could also be a limiting factor. Going by the fagility of some Tarkett’s products, it becomes unsafe to export some products. The presence of sea or river access could aid trade and given the size of Brazil and diversity of the people signal a good market for Tarkett’s products. Internal transportation or communication links seems to be good but local supervision and operational requirements are high.

The quality of natural resources, financial resources, human resources, infrastructure, intermediate inputs are important for any business expanding into a new location. Tarkett has to do extensive research to evaluate the presence of the natural resources need for the production of its products, the human resources in terms of skills and expertise and the financial support system for creation of value; not overlooking the existence of infrastructure to support movement and communication in and outside the country.

Brownfield FDI has been working for Tarkett. Brazil has a revealed comparative advantage less than one. This presupposes that, for a developing country like Brazil, Vertical FDI should be more important and be driven by production cost differences. Production cost difference should be more important than trade and transport cost and cost savings must be more than the fixed costs from new facility/acquisition.

Brazil's economy has not been performing well though it was termed the most improved economy in Latin America in WEF 2019 scoring the 71st position in global competitiveness. It has been facing negative annual growth, moderate inflation and increasing unemployment rate compare to other developing countries like Mexico. Brazil is a developing and promising economy with a solid macroeconomic framework for industrialization and urbanization.

**CONCLUSIONS AND RECOMMENDATIONS**

Tarkett is a multinational corporation seeking global expansion to the Latin American countries like Brazil based on its competitiveness, business model, and its M&As strategy. The company is pursuing CSR by broadening the commitment to carbon neutrality to allow the boasting of the largest collection of carbon-neutral products in the industry. The company is leading in design, innovation, and sustainability in its business operations. Given the developing nature of the Brazilian economy, it is in the best interest of Tarkett to purse Vertical Brownfield FDI. That is, Tarkett should buy a controlling stake in a firm in Brazil, break down the production processes and transfer parts of the production processes are transferred to the affiliate location. FDI SHOULD BE driven by production cost differences. Production cost difference should be more important than trade and transport cost and cost savings must be more than the fixed costs from new facility/acquisition.

However, due to lack of abundant relative resource endowment in the production of intermediate products needed for Tarkett’s project, it also means that, the relative wage will be lower. It could serve as a base to reach other neighbouring countries in the continent while facilities are built in Brazil.

The cultural differences of the people must be given a huge consideration.