INTERNATIONALIZATION IN THE MEDIA OUT-OF-HOME INDUSTRY: THE CASE OF JCDECAUX IN THE BRAZILIAN MARKET

ABSTRACT

Purpose - This case study aims to understand the motivations for the expansion of the French multinational JCDecaux to Brazil, in the light of relevant theories about the internationalization of companies. JCDecaux is the world’s largest outdoor media company (out of home), a fast-growing industry of the advertising market in Brazil.

Design/methodology - This study explain the case based on the internationalization of companies theories, in the economic (Eclectic Paradigm of International Production) and behavioral (Uppsala School and Business Networks Model) strands. In addition to secondary sources, the research was supported by interviews with experts and executives from the outdoor media industry in Brazil.

Findings - The main determining drivers for the entry of JCDecaux in the Brazilian market were identified. The analysis based on the theoretical models of internationalization concluded that the economic approach determined in a more significant way the company’s entry into the Brazilian media out of home market. Economic advantages outweighed the costs and risks of Brazil’s business environment, making the country attractive to the company’s foreign investment.

Research limitations - The scarcity of data about the media outdoor was reported by a professional interviewed as a negative feature. Another important limitation is the lack of scientific production about the out-of-home media in Brazil.

Originality - This paper contributed to generate important information about the Brazilian outdoor media industry, especially on the phenomenon of internationalization of companies in this industry.

Keywords - Internationalization of Companies; Economic and Behavioral Approaches; Media Out of Home; JCDecaux; Brazilian Market.
RESUMO

Propósito - Este estudo de caso visa compreender as motivações para a expansão da multinacional francesa JCDecaux para o Brasil à luz de teorias relevantes sobre a internacionalização de empresas. A JCDecaux é a maior empresa de mídia outdoor (out of home) do mundo, um segmento em crescimento do mercado publicitário Brasileiro.

Design/metodologia - Este estudo explica o caso baseado nas teorias de internacionalização de empresas, nas vertentes econômica (Paradigma Eclético da Produção Internacional) e comportamental (Escola de Uppsala e Modelo de Redes de Negócios). Além de fontes secundárias, a pesquisa contou com entrevistas com especialistas e executivos da indústria de mídia outdoor no Brasil.

Resultados - Foram identificados os principais determinantes para a entrada da JCDecaux no mercado brasileiro. A análise baseada nos modelos teóricos de internacionalização concluiu que a abordagem econômica determinou de forma mais significativa a entrada da empresa no mercado brasileiro de mídia outdoor. As vantagens econômicas superaram os custos e riscos do ambiente de negócios do Brasil, tornando o país atraente para o investimento estrangeiro da empresa.

Limitações da Pesquisa - A escassez de dados sobre a mídia outdoor foi relatada por um profissional entrevistado como um fator negativo. Outra limitação importante é a falta de produção científica sobre a mídia out of home no Brasil.

Originalidade - Este artigo contribuiu para gerar importantes informações sobre o segmento de mídia outdoor brasileiro, principalmente sobre o fenômeno da internacionalização das empresas nesse setor.

Palavras-chave - Internacionalização de Empresas; Abordagens Econômica e Comportamental; Mídia Out of Home; JCDecaux; Mercado Brasileiro.

1 INTRODUCTION

Studies on the internationalization of companies have acquired increasing importance in the last decades, mainly because of the development of the globalization process. In a context of growing trade and investment flows and more interdependence between countries, companies are driven to develop business and operations outside their country limits, leading to the emergence of multinational corporations. The occurrence of this phenomenon has encouraged the academy to seek reasons to explain the fundamental motivations and characteristics of the internationalization process, considering both economic and behavioral aspects (Souza; Fenili, 2012; Bemvindo, 2014).

Besides, some studies have been focusing on understanding what is the relation between internationalization and strategic analysis. The purpose is to identify the benefits of this process, which creates competitive advantages for companies.

The presence of foreign direct investments made by multinational corporations is remarkable in several sectors of the Brazilian economy. In recent years, the media out-of-home represents an emerging sector that has been attracting the attention of large multinational companies. This sector is characterized by advertising in urban spaces such as street furniture, transportation systems, and billboards. Brazil is one of the largest consumer markets worldwide and the leading one in Latin America. The country has many metropolitan areas with relevant capital and medium-sized cities, being the sixth-biggest global publicity market with a total of investments of US$ 19.8 billion in 2014 (Meio&Mensagem, 2015).

The media out-of-home market represents 6.8% of the world’s advertising market, or US$ 37 billion annually, in terms of annual spending, (JCDecaux, 2015a). This media out-of-home industry has excellent potential for growth in Brazil, one of the leading consumers and advertising markets in the world. The country has 84.4% of the population living in cities and the expectation that more than 90% of Brazilians will live in cities in 2030 (Portal Brasil, 2016). So, Brazil offers an attractive scenario for the expansion of the out-of-home in the publicity market. In this sense, for any company targeting a strategy of market leadership in Latin America, it is essential to establish operations in Brazil.
After the implementation of a new municipal law in the city of São Paulo, which reorganized the merchandising in the urban and public spaces, the media out-of-home sector has been booming in Brazil the last five years. The sector increased on average 21% per year (Meio& Mensagem, 2015). In this context, many other municipalities, from state capitals to medium-sized cities, are gradually opening biddings to allow the private exploration of publicity in the urban furniture. Indeed, the segment of merchandising in transportation (such as airports, buses, subways) has also been increasing, as well as the publicity in large formats (billboards).

Acknowledging that the development of the media out-of-home is relatively recent in the country, few studies explore it in the academy. When considering the foreign investment in this sector and the entrance of multinationals in the country, the literature is even more scarce. Thus, considering the economic and behavioral aspects of the process of internationalization of companies, it is possible to raise the question: “How are characterized the drivers that determine the entry of a media out-of-home company in the Brazilian emerging market?”

For this purpose, the case selected for this research regards JCDecaux, the leading global company in this field. The phenomenon observed concerns the entry process of this company in the Brazilian market. So, this paper intends to generate knowledge about the segment of media out-of-home, as well as about the subject of internationalization of companies.

1.1 Objective

The objective of this paper is to analyze the motivations that led the company JCDecaux, the global leader in its segment, to enter into the Brazilian market. To do so, the research aims at:

- identifying aspects that determined the entry of JCDecaux in the Brazilian market; and,
- analyzing the influence of the economic and behavioral factors, as proposed by the theoretical models of internationalization of companies, in such aspects identified to explain JCDecaux’s entrance in Brazil.

This paper focuses on analyzing this case based on the literature about the internationalization of companies. By evaluating the strategy and the determining factors that underlie the company’s investment into the country, the intention to show to what extent the propositions of the main theoretical models, economic and behavioral, contribute to the understanding of the phenomenon analyzed.

2 LITERATURE REVIEW

The internationalization of companies is a phenomenon related to the emergence of a global economy, when international competition becomes more intense and accelerated, especially since the last decades of the twentieth century. In this context, companies are increasingly instigated to set innovative market expansion strategies to maintain operations and gain competitive advantages. Expand operations to new markets has become an opportunity for companies to preserve the competitive advantages and enhance their level of competitiveness. Operations in foreign markets allow companies to diversify consumer markets and the access to resources, gaining scale advantages, improving relations with manufacturing and technological partners, and strengthen the brand internationally (Coelho, Oliveira Junior, 2012; Hill, 2002; Morrish, Earl, 2020).

According to Hill (2002), accessing new markets comprehends a strategic option to increase firm revenues. The author also states that the international expansion of a company contributes to reaching rates of growth not possible when operating exclusively in the domestic market. The inter-
nationalization process brings benefits to companies, such as:

1. Increasing the size of the market to the company products;
2. Taking advantage of localization strategies and international distribution of value creation activities;
3. Reducing costs to create value, by benefiting from the expertise developed to serve global markets from central localities; and
4. Increasing the income through the development of knowledge in international operations, transferrable to other parts of the company’s global value chain.

The internationalization process allows companies to gain competitive differentiation and create value derived from their global activities, including research and development activities (Porter, 1996; Vahlne, 2020). The attractiveness of a foreign market relies on the potential to earn benefits over the costs and risks associated with the operations in the long term. Figure 1 presents the interaction between these three axes to analyze the country’s attractiveness.

![Figure 1: Aspects of the attractiveness of a country.](image)

**Source:** Adapted from Hill (2002).

According to the author, the benefits regard the size of the country’s economy, its potential growth, and the purchasing power of the population. Costs concern the barriers faced by companies investing in markets, as well as the costs involving the juridical-institutional environment, tax burden, deficiencies in infrastructure, and corruption. Risks are identified intensely in countries with institutional or political instability, offering less security and predictability to foreign investors due to the lack of suitable legal protection mechanisms. Also, the mismanagement of the economic policy is an essential driver contributing to higher risks. Therefore, a foreign market becomes attractive when benefits overcome the costs and risks involved in the company’s operations in such a country.

Hill’s (2002) approach reveals relevant strategic aspects embodied by the theories of internationalization, especially those considering economic approaches, as the Eclectic Paradigm of International Production.

Other basic assumptions in the international business literature rely on the fact that foreign
markets are distinct entities in which operations are undertaken, requiring specific forms of organization (Johanson; Vahlne, 2003). According to Souza and Fenili (2012) and Bemvindo (2014), two main approaches may be adopted to understand the motivations to carry out an internationalization process, including foreign direct investment (FDI). The first one regards the economic rationale of a cost-reducing strategic analysis and the maximization of competitive advantages, developed mainly by the Eclectic Paradigm of International Production. The other concerns the School of Uppsala originated in Sweden in the 1970s, which stresses the behavioral approach of the internationalization process.

2.1 The Eclectic Paradigm of International Production (“OLI Theory”)

The “Eclectic Paradigm” is one of the leading works regarding the economic approach of internationalization theory. According to Dunning (1980, 2001), the comprehension of the foreign direct investment involves three types of advantages, which motivate the value creation process in international operations: (i) ownership, (ii) internalization, and (iii) location.

The competitive advantages of ownership (i) are those that companies of one nationality have over those of another when providing a market or set of markets. Such advantages may come from the ownership or privileged access to a set of assets, or the expertise accumulated in managing them with other assets through foreign markets. Ownership advantages grant benefits in comparison to the firm’s competitors (or potential competitors) (Dunning, 2001; Giakoulas, Kottaridi, 2020).

Advantages of ownership are also in connection to the company’s ability to hold and position essential capabilities as a competitive edge vis-à-vis local or foreign competition in a determined market. Assets can be tangible and intangible, for instance, including brands, human capital, technological, and managerial capabilities (Veiga, Iglesias, 2002).

The second advantage concerns internalization. Dunning (2001) argues that internalizing third markets is strategical, allowing companies to make use of and aggregate value to the incorporated assets, thus enhancing competitiveness.

Finally, the eclectic paradigm highlights the advantages involving the allocation of value aggregation activities outside the domestic market (localization) (Dunning, 2001). The localization advantages can be offered by “a country, region, or locality with natural resources, infrastructure, market size, workforce, economic, political and institutional stability” (Coelho; Oliveira Junior, 2012). So, companies seek to establish international operations in optimal markets, where they may find the lowest possible costs and, consequently, the highest profitability rates (Dunning, 2001; Hill, 2002).

As stated by Coelho and Oliveira Junior (2012), the internationalization process can be pursued by different modes of entry, in accordance with the company’s international goals. The entry strategies range from less complex ones, as direct exports, to more complex and risk-taking, as direct foreign investment. The eclectic paradigm also contributes to comprehending the decision-making process that involves not only exploring a new consumer market but also accessing resources, human abilities, and research and development expertise (Guimon, 2016).

According to Dunning (2001), the pattern and extension of the activities carried out by an international company continually relies on strategies dealing with economic components expressed in the tripod “ownership, internationalization, and localization” (OLI). The same occurs in the analysis of future contexts: the strategy and the decision-making established by a company in the present time influence the future OLI scenario. Recently, the eclectic paradigm has been integrating its approach to those developed in the New Institutional Economics, especially on transaction costs (Rahman; Brisdge; Rowlinson et al. 2018).

2.2 Uppsala School
The Uppsala model was firstly proposed in 1977 aimed at explaining the process of internationalization of companies. This model describes the phenomenon of internationalization as a result of a set of continual decision-makings, allowing companies to gradually increase their engagement with foreign markets, international operations, and business exchanges (Vahlne, Johanson, 2017; Coviello, Kano, Liesch, 2017).

The Uppsala model has two assumptions: (i) the lack of knowledge is an important obstacle to the development of international operations; (ii) the required knowledge to advance the internationalization process is learned and acquired mainly through the experience generated in international activities. The internationalization process is carried out throughout the growing involvement of the company in a foreign market, or by setting up direct operations in new countries (Johanson, Vahlne, 1977, 2003; Vahlne, 2020).

As stated by Johanson and Vahlne (1977, 2003), the internationalization process can be explained based on the following premises: (i) it happens gradually, from a set of incremental decisions regarding the involvement with foreign market and operations; (ii) the lack of knowledge is an obstacle but can be gradually acquired; (iii) the accumulation of expertise in operating on foreign markets makes companies more likely to get involved with those markets; (iv) the “psychic distance” between the domestic and other markets affects the internationalization process and may elevate the level of uncertainty; and finally, (v) companies will privilege foreign markets with lower levels of psychic distance with their home market. Figure 2 presents the interconnections between the variables “knowledge” and “commitment,” the decisions about commitment, and the performance of current activities.

![Figure 2: Basic mechanism of internationalization – School of Uppsala. Source: Based on Johanson and Vahlne (1977).]

The knowledge developed by a firm on a new market determines the level of commitment adopted in the entrance strategy. This expertise can be accumulated continually throughout the company’s operations in foreign markets.

2.3 Business Network Model

Johanson and Vahlne (2003) and Vahlne (2020) argued that is necessary to adopt new models of comprehension of the internationalization process, to be able to face more accurately the accelerated global competition context and the new technologies impelling companies to go abroad faster. So, they propose an approach based on the network relationship titled Business Network Model.

The Business Network Model states that the relationship among a network of firms impacts
the decision-making on the internationalization process, especially when selecting a new market, the entrance strategies, and the own implementation of the process. Firms take part in a series of relationships with other partner companies, suppliers, and customers, then the marketplace in which they have operations is constituted by interconnections of such relations. Each actor of the network (the firms going abroad or partners, for example) carries out a significant role in the success of the internationalization process (Oliva, 2015; Yamin; Kurt, 2018). In this sense, the internationalization is initially the result of the development of relationships that the firm already has, and the barriers to entry into foreign markets stem from management problems for establishing and developing relationship networks with its suppliers and customers. (Johanson; Vahlne, 2003).

2.4 Summary of the Literature Review

The theoretical models employed in this case study are propositions aiming to understand the causes that motivated the company JCDecaux to expand its operations to the Brazilian market.

The paper resorts to previous studies carried out by Brazilian authors on the theme of internationalization such as Coelho e Oliveira Junior (2012), Souza e Fenili (2012), and Bemvindo (2014). Secondly, a review on internationalization and strategy was carried out based mainly on Hill (2002) and Porter (1996), respectively. Finally, the paper dealt with the main approaches of the literature on the internationalization of companies. Chart 1 presents the literature covered for this investigation.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Literature</th>
</tr>
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<tbody>
<tr>
<td>School of Uppsala</td>
<td>Johanson and Vahlne (1977, 2003)</td>
</tr>
<tr>
<td>Business Networks Model</td>
<td>Johanson and Vahlne (2003), and Oliva (2015).</td>
</tr>
</tbody>
</table>

Source: Based on the literature presented.

The economic approach based on Dunning (1980, 2001) concerns the Eclectic Paradigm of International Production. This approach considers the process of international business expansion according to the economic advantages of localization, ownership, and internationalization. Coelho and Oliveira Junior (2012), and Hill (2002) also contributed to describing the main economic drivers of internationalization.

The behavioral approach of the School of Uppsala is based on Johanson and Vahlne (1977, 2003). Additionally, the Business Network Model presents a more recent contribution to it, aggregating relevant propositions to the case explored in this paper.

3 METHODOLOGICAL ASPECTS

This research is a case study. According to Yin (1994), case studies are preferred to explore contemporaneous events, within their real context, and when they cannot be manipulated by the agents undertaking the empirical research. Case studies require the employment of additional sources of evidence, such as direct observation or interviews. Besides, this study is defined as a single case, since the unit of analysis is an individual company.

This paper is a qualitative investigation that emphasizes the processes and meanings that
guide the phenomenon analyzed and its context. So, this research seeks to comprehend the data aiming to elaborate a detailed analysis of investigations, actions, and tendencies (Lakatos; Marconi, 2003).

3.1 Conceptual Base

The theoretical models employed in this research are part of the literature on the internationalization of firms, as presented in Chart 1. They synthesize:

- Internationalization and strategy: mainly in aspects related to the attractiveness of a foreign market, and the company’s expansion strategies; and,
- the main internationalization process approaches on literature, on the one hand, the Eclectic Paradigm of International Production; and, on the other hand, the School of Uppsala and Business Network Model. These approaches can provide the comprehension of the process of internationalization carried out by JCDecaux, which concerns specifically its entrance into the Brazilian market.

3.2 Data collection

Data collection employed interview techniques to obtain primary data as well as documental analysis (secondary data). The interviews aimed at collecting impressions and pieces of information reserved for specialists inserted in the market (Lakatos & Marconi, 2003). The script of questions was developed to both support the realization of the interviews and grant the flexibility to the interviewee also add comments and information considered relevant.

The questions of the interview script were developed considering the internationalization process models as a theoretical background to the case study, along with the main data collected from documental analysis regarding the media out-of-home market. The script was developed aiming (i) to corroborate, validate and complement data retrieved from documental sources, and (ii) collect data and opinions about the internationalization process of JCDecaux, especially the entrance of this company into the Brazilian market of media out-of-home, and the motivations for such strategy. The interviews were conceived to test the application of each theoretical model to this case.

Five interviews were carried out with out-of-home media experts acting at the managerial level in JCDecaux, and competitor companies. It also included an interview with the CEO of the Brazilian Association of Media Out-of-Home (ABOOH – Associação Brasileira de Out of Home). Additionally, a former director of magazine Meio & Mensagem, one of the leading publications in media and communication in Brazil, was interviewed. All professionals have considerable experience acting on the Brazilian media market and are familiar with the leading companies of this market, especially JCDecaux.

Excepting one, all interviews were carried out face-to-face during, on average, sixty minutes. The meetings occurred in December 2016 and January 2017. One of the interviewees limited his answers to describe the structure of the media out-of-home market in Brazil. In turn, the others also shared their point of view about the entrance of JCDecaux in Brazil.

Official documents publicly available on JCDecaux’s website regarding information to shareholders were used as secondary sources, especially the Reference Document of 2015, as well as press releases available in different international web sites of the Group (divided by region and country). Finally, more data were obtained from specialized news agencies and magazines, as Meio & Mensagem.

3.3 Data Analysis
It is being employed the method for data analysis proposed by Miles, Huberman, and Saldaña (2014), which comprehends a process of data codification (primary and secondary sources) that allows comparisons regarding regularities and exceptionalities of data to reach information patterns for the analysis.

Early, the data analysis embodied the documental sources, providing an initial comprehension of the object studied. So, the data collected in the interviews were tabulated according to the regularities and exceptionalities of patterns of information. Common data were structured in codes and analyzed deeply. Afterward, comparisons among primary and secondary data allowed relevant observations to understand the causes that motivated JCDecaux to expand its ventures to the Brazilian market.

Finally, convergences and divergences were found between data and the assumptions of the theoretical models (Eclectic Paradigm of International Production, School of Uppsala, and Business Network Model), allowing to verify which model, economic or behavioral, best explains the phenomenon observed.

4 RESULTS

This section is divided into four subsections. Initially, the presentation of the case of JCDecaux is followed by an analysis of the determining drivers underlying the company’s entrance in the Brazilian market. In the third subsection, the case is reviewed under the lens of the theoretical models proposed by the literature on the internationalization of companies. Finally, the last subsection presents a summary of the results of this paper.

4.1 The case of JCDecaux

JCDecaux is a leading global company in the area of media out-of-home advertising. The company has operations in more than 76 countries, acting in three advertising segments: street furniture, transportation, and large formats (billboards). In 2015 the revenues of JCDecaux were € 3,2 billion. The company controls more than 1,1 million advertising panels, reaching an audience of 390 million people daily (JCDecaux, 2015b).

The company operations started in 1964 in Lyon, France. The initial activities of JCDecaux concerned installation and maintenance services to urban furniture pieces, free of charge, in exchange for the right to explore them with advertising campaigns and materials. Such business segment was commercially unexplored until so (JCDecaux, 2015b). Initially, the company was a familiar enterprise led by Jean-Claude Decaux and his brothers Jean-Pierre and Jean-Marie. In 1967 the company made the first international investments in Belgium. From the 1980s, the second generation of the family joined the group and assumed responsibility for international expansion, with Jean-Claude’s children going to live abroad.

Since the 2000s in Brazil, JCDecaux has been significantly advancing in its internationalization process to the Brazilian market, incorporating several outdoor media contracts in its portfolio in the main cities of the country. In addition, the company builds on its global merger and acquisition strategy to ensure the rapid growth of its operations and business in Brazil and the region. In a short time, JCDecaux already occupies a leading position in these markets.

The major turning point for the group’s expansion and consolidation in Brazil occurred in
2012, with the achievement of a 25-year contract for advertising exploration on street clocks in the city of São Paulo (JCDecaux, 2012; Meio&Mensagem, 2012a). This also provided an exceptional platform for developing JCDecaux’s business in Latin America (JCDecaux, 2015b).

4.2 Determinant Factors to the entrance of JCDecaux in Brazil

The answers given by four of the five interviewees point in the same direction as the information obtained from the company’s public reports and the press. The factors that motivate JCDecaux’s internationalization in Brazil are aligned with its global dominance strategy; in other words, assuming a leading position in the main foreign media segments and markets. In this sense, the entry into Brazil aims at national and regional leadership (Latin America), either through operations that promote organic growth or through mergers and acquisitions consolidating their footprint in the region.

Operating in Brazil also means expanding the billboard supply network in the country and Latin America to its client and advertiser market base. By increasing its presence in major consumer markets, JCDecaux reinforces its ability to offer complete and integrated external media solutions to its customers, in line with its global strategy. According to interviewees, this allows the group to position itself as the reference brand in the world in terms of quality and scope of products and services.

A third major driver explaining JCDecaux’s interest in setting up operations in Brazil is the great existent potential for acquisitions of national or multinational players, with already established operations and contracts. Thus, these competitors are potential targets for JCDecaux’s rapid leadership consolidation strategy in the region (JCDecaux, 2015a).

Besides, following the approval of *Cidade Limpa* (“Clean City”) law in São Paulo in 2006, the dissemination of a new regulatory framework through many Brazilian municipalities has made the market even more attractive for the group, which has an e long track record and experience with this business model. Besides, all professionals interviewed stated that there is still a large potential demand to be explored in out-of-home media, both in major urban centers (Sao Paulo and Rio de Janeiro) and in other capitals or medium-sized cities. There is a growing perception by municipalities of the benefits that the opening of these concessions can provide, as a source of income and enhancement of their urban furniture and transport networks (Meio & Mensagem, 2012a, 2012b).

Chart 2 presents a synthesis of the determinant factors that influenced the entrance of JCDecaux into the Brazilian advertising market, as pointed out by the experts interviewed.

<table>
<thead>
<tr>
<th>DETERMINANT FACTORS FOR THE ENTRANCE OF JCDECAUX IN BRAZIL</th>
<th>Potential growth of the media out-of-home market in Brazil.</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>The relevance of <em>Cidade Limpa</em> (&quot;Clean City&quot;) Law.</td>
</tr>
<tr>
<td></td>
<td>The potential for competitor acquisitions</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors based on information gathered in interviews

Moreover, the group’s main direct clients are predominantly international advertising agencies, which also have multinational profile advertisers in their portfolio. As a result, an increasingly integrated and comprehensive billboard coverage allows advertisers to run interconnected campaigns in different regions and countries.

4.3 Case analysis according to the economic and behavioral theoretical models
The purpose of this section is to analyze the entry of JCDecaux in the Brazilian market, especially regarding its motivations, in the light of the theoretical framework on the internationalization of companies selected for the case. As presented in section 2, the concept of internationalization synthesized by Coelho and Oliveira Junior (2012) is useful for analyzing this case, as it is a “process of expansion of the company to foreign markets” and “realized via foreign direct investment.” This section seeks to identify points of convergence and divergence of this process with the theoretical models. In other words, it will be evaluated which assumptions of the models, in terms of economic and behavioral aspects, may contribute most to identify the motivations for the internationalization of JCDecaux to Brazil.

4.3.1 Charles Hill attractiveness model

An important assumption in Hill’s (2002) work is that internationalization is necessary for companies to increase their profitability and growth rate, which would not be feasible if their performance were restricted to the domestic market. Given JCDecaux’s track record of internationalization and the answers collected from interviewees, it can be stressed that expansion to third markets is part of the company’s growth strategy and global leadership.

The opening of operations in Brazil is essential to maintain this strategy, aiming at consolidating a dominant position in one of the emerging and most attractive markets (including Latin America) for out-of-home media. Among the benefits of internationalization listed by Hill (2002), coming to the Brazilian market is motivated especially, therefore, by the increased market size available for the products and services offered by the company.

In this regard, it is appropriate to apply the country’s attractiveness model (Hill, 2002) to demonstrate how the Brazilian market has become favorable for JCDecaux’s investment. The balance between “benefits,” “costs” and “risks” provided a positive decision towards entry into Brazil.

As seen in the previous section, the investment benefits are high considering the size of the Brazilian market and the potential for outdoor media growth. Also, the diffusion of the Cidade Limpa (“Clean City”) Law as a reference for the development of the sector, nationwide; the increasing opening of public auction notices for urban furniture concession; and the privatization of airports are all factors that, in aggregate, reduce the “risk” variable and make the Brazilian complex and challenging business environment (“cost” variable) less relevant. According to the Doing Business Ranking, formulated annually by the World Bank, Brazil ranks only 123rd (out of 190 countries) in the ranking of the best economies to do business (World Bank, 2016)

Chart 3 presents the Attractiveness model proposed by Hill (2002) applied to the case of JCDecaux.

<table>
<thead>
<tr>
<th>ATTRACTIVE ASPECT</th>
<th>APPLICABILITY IN THE JCDECAUX CASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>Market size and potential growth of the media out-of-home sector; the increasing number of public auctions for concessions of street furniture; privatization of airports; potential for local acquisitions.</td>
</tr>
<tr>
<td>Costs</td>
<td>High costs of doing business in Brazil. Complex business environment (World Bank, 2016).</td>
</tr>
<tr>
<td>Risks</td>
<td>Recent economic and political crisis scenario.</td>
</tr>
</tbody>
</table>

Source: Based on Hill (2002).

Despite the high cost in the country and the risks related to the political and economic crisis...
in the most recent scenario, the benefits of entering the Brazilian out-of-home media market outweigh the possible costs and risks, making the country highly attractive to a company whose strategy is to be a leader in the main international markets. Because of the rationale presented above to explain JCDecaux’s strategic decision to set up in Brazil, the following sections will be devoted to more directly analyzing the “benefits” according to internationalization theories.

4.3.2 Application of the Eclectic Paradigm of International Production

In this section, three advantages proposed by the Eclectic Paradigm of International Production are analyzed in the light of the internationalization process of JCDecaux to Brazil. This triad concerns ownership, internalization, and localization.

The work developed and updated by Dunning (2001) is a comprehensive theoretical model for the analysis of the reasons why companies choose to implement value generation activities through internationalization. The advantages related to the company JCDecaux, summarized in Chart 4, will be explained below.

Advantages of Ownership

A company holds ownership advantages by providing a market or set of markets, notably through the possession of income-generating assets, which gives it a competitive edge over other players. Thus, the greater the ownership advantages of a firm in a determined market, guaranteed by foreign direct investment, the smaller the advantages held by its competitors (Dunning, 2001).

The entry and expansion of JCDecaux to Brazil follow this proposition of the Eclectic Paradigm. From the analysis of the collected data and interviews, it is observed that the growth of the company’s participation in the market stems from winning out-of-home media concession contracts in all segments (street furniture, transportation, and large formats), including mergers and acquisitions transactions of competitors. Since contracts are exclusive, for the most part, acquiring a business means getting an asset over the competition, which creates a property advantage. With this strategy, JCDecaux aims to increase its participation in Brazil, given the great potential for expansion in a pulverized market with many national and regional players.

In other words, as the French multinational increases its portfolio of assets in Brazil, especially due to the expansion of business in the main cities, the potential growth of competitors becomes smaller. The same happens when JCDecaux acquires other companies operating in the market, guaranteeing assets related to contracts already in force.

Internalization Advantages

According to Dunning (2001), a company internalizes foreign markets in order to generate and better use its assets, adding value to them. JCDecaux is a service company whose business model necessarily requires a direct presence to do business in a foreign market.

Therefore, foreign direct investment is imperative for JCDecaux to access international business opportunities. The multinational must be directly present in the markets and, in order to do so, is supported by partnerships with local players (joint-ventures), or a strategy of mergers and acquisitions. As seen in the previous sections, this is the expansion model that the company adopts globally and which was also the basis for its entry and expansion in Brazil.

The advantages of internalization also apply to the case. Whether through joint-ventures with local partners or merger and acquisition operations, JCDecaux’s foreign investment assumes
the characteristic of acquiring assets, competencies, supplier and client networks (stakeholders), and relationships with players already established in the target markets. As answered by the professionals interviewed, it was vital for the company’s entry in Brazil to partner with a local player who already had business, knowledge, experience, and networking in the industry. Thus, JCDecaux was able to internalize key competencies to operate in the country, reducing the risks, uncertainties, and difficulties for a newcomer in the market. It can be concluded, therefore, that the partnership with a local player diminished JCDecaux’s perception of “costs” and “risks,” making the benefits of the Brazilian market even more attractive. This is another factor that makes Hill’s (2002) attractiveness model applicable to the case.

Mergers and acquisitions strategies, such as the acquisition of competitors’ operations, can also be considered from this perspective. Given that this enables an accelerated learning and knowledge and expertise acquisition to operate in a new market, one can apply Hill’s (2002) finding that most international investments are made by mergers and acquisitions rather than greenfield. It is remarkable, therefore, the correlation between theory and case study, since the strategy defined by JCDecaux is very connected to the advantages of internalization.

Localization Advantages

Localization is the third advantage stated by the Eclectic Paradigm. It relates to the advantages inherent to the market itself (country, region, or locality) (Coelho, Oliveira Junior, 2012).

Two main localization advantages motivated the entrance of JCDecaux in Brazil: size and market potential, and a favorable political and institutional scenario, following the implementation of the Cidade Limpa (“Clean City”) Law (São Paulo, 2006) and its increasing diffusion throughout other cities in the country.

These factors are prominent to JCDecaux’s decision to enter the Brazilian out-of-home media market, especially since 2012 when the regulatory environment became more attractive with the opening of the first public auction for urban furniture concession in São Paulo. The advantages of location help to explain the timing of the company’s decision to strengthen its presence in the country, in line with the other advantages that make up the “property - internalization - location (OLI)” tripod. Chart 4 presents a synthesis of the analysis of the triad of advantages detailed by the Eclectic Paradigm.

Chart 4: Triad of Advantages - Eclectic Paradigm of International Production

<table>
<thead>
<tr>
<th>OLI ADVANTAGES APPLIED TO THE CASE</th>
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<tbody>
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<td><strong>Advantages of Ownership</strong></td>
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<tr>
<td>• Concession contracts of media out-of-home in all segments;</td>
</tr>
<tr>
<td>• Assets related to existing contracts of companies incorporated through merger or acquisition operations</td>
</tr>
<tr>
<td><strong>Advantages of Internalization</strong></td>
</tr>
<tr>
<td>• Joint-Ventures with local partners;</td>
</tr>
<tr>
<td>• Essential expertise to operate in different markets, mitigating risks, uncertainties, and barriers to access a new market.</td>
</tr>
<tr>
<td><strong>Advantages of Localization</strong></td>
</tr>
<tr>
<td>• Market size and business potential;</td>
</tr>
<tr>
<td>• Favorable political and institutional scenario, easing foreign investments</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors based on Dunning (2001).

From the interaction between these three types of advantages, and according to the prop-
ositions of the Eclectic Paradigm, it is possible to state that the internationalization of the French multinational to Brazil assumes the main motivation of “market seeking.” Such a theoretical model is quite significant, therefore, for the analysis of the present case and is in line with the economic drivers highlighted by all market experts during interviews.

4.3.3 Application of the School of Uppsala

The concept of psychic distance formulated by the Uppsala Theory is relevant to explain the first internationalization movements of JCDecaux, both in Europe and in other continents. In the early years of its history, the company expanded its activities to other European countries, notably nearby markets in more geographical and cultural aspects, such as Italy and the United Kingdom. The typical gradualism described by Uppsala can also be seen in the group’s early expansion movements to Asia, Africa, and the Americas, where an incremental level of commitment was observed.

Certainly, the company’s accumulated experience in international business since the late 1960s has also contributed to the decision making and definition of how to enter the Brazilian market. The knowledge gradually acquired over decades of presence in other countries has enabled the reduction of risks and uncertainties for making investments in Brazil. One of the contacts interviewed states that, although JCDecaux is a global company, the operations and management are essentially local, which shows its adaptability to the most distinct markets.

In addition, as per the information obtained from the interviews, during the early years in the country in the 2000s, JCDecaux partnered with a local partner, learning about the market and prospecting opportunities. After the approval of the Cidade Limpa (“Clean City”) Law in São Paulo (São Paulo, 2006), the multinational awaited the opening of the public auction notice by the municipal administration, winning the concession of street clocks in 2012. As previously seen, this contract is considered the first big deal in Brazil. After that, the company started getting a more aggressive strategy to gain market share in the country.

In this sense, the early years in Brazil, albeit through a more modest presence, were fundamental to broaden the learning and knowledge about the local market. In line with Uppsala Theory, it can be argued that JCDecaux took advantage of these early years to better plan and prepare its mode of entry, in alignment with a partner company. This enabled the French multinational to participate effectively in the concession disputes that would follow, later, with the positive repercussion of the Cidade Limpa (“Clean City”) Law in the country.

Although Uppsala’s theoretical model is useful for historically explaining the internationalization process of JCDecaux and, more specifically, the first year of its expansion to Brazil, some criticism should be imposed on the execution of the model. The company studied is a large multinational, the leader in its sector, and with a wide presence on all continents. If it is true that the gradualism in internationalization advocated by this behavioral aspect is proven, it is equally necessary to argue that the factors that motivated the coming of JCDecaux to Brazil are much more economic than behavioral.

4.3.4 Business Networks Model

In the present case, it is observed that the choice of a local partner with market knowledge, business history, and relationship with the main stakeholders of the sector was an essential factor for the development of JCDecaux’s business in Brazil. In a sector in which the perception of political relations is a relevant factor, given the predominant character of public concessions to obtain long-
term contracts, finding a partner with years of experience in the market has proved fundamental for the French multinational.

By analyzing the information available on the internationalization of JCDecaux to other continents, it is noted that the execution of partnerships and networks of relationships with local actors is a recurring procedure. In Japan, for example, the French group operates in coordination with Mitsubishi Corporation in a joint-venture (MCDecaux), which has historically allowed better access to the Japanese market.

In addition to partnerships and joint-ventures, relationship networks may also be formed by mergers and acquisitions. In short, the consolidation of networks in the various markets in which it operates is strategic for JCDecaux. By partnering with renowned companies in their countries, the French multinational can learn and internalize its competencies, increasing the potential for success in the market. Thus, the networks contribute to the mitigation of psychic distance and the risks related to internationalization, which demonstrates a clear link between this model and the Uppsala School.

On the other hand, some criticisms may be claimed against the application of this model. As in the previous section, it is understood that the fundamental variables that explain the entry of JCDecaux to Brazil are economic. In this sense, one of the propositions of Johanson and Vahlne (2003) is invalidated according to which internationalization is initially the result of the development of relationships that the firm already has, which would make the choice of the country something secondary.

All interviewees stressed the importance of networking; however much more emphasis was placed on economic and regulatory drivers. It is concluded, therefore, that the networks built in Brazil were a way to reduce uncertainties and accelerate the learning process for market entry. If, on the one hand, the model contributes to the understanding of JCDecaux’s expansion in Brazil, on the other, it should be relativized and not understood as the determining factor for the study of this case.

4.4 Synthesis of the results

Chart 5 demonstrates the main results found in this research based on theoretical models presented in Chart 1.

<table>
<thead>
<tr>
<th>Theoretical Models</th>
<th>Results</th>
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<tr>
<td>Internationalization and Strategy</td>
<td>The balance between “benefits,” “costs” and “risks” provided a favorable decision towards JCDecaux’s entry into Brazil (Chart 3). The determining factors are the growth of the Brazilian out-of-home media market, the relevance effect of Cidade Limpa (“Clean City”) Law in the city of São Paulo, the largest city in the country, and the potential for acquisitions of local competitors.</td>
</tr>
<tr>
<td>Eclectic Paradigm of International Production</td>
<td>Acknowledging the interaction between the advantages of ownership, internalization, and location (Chart 4), and according to the propositions of the Eclectic Paradigm, it is possible to state that the internationalization of the French multinational to Brazil assumes a “market seeking” strategy, which highlights the predominance of an economic motivation approach.</td>
</tr>
<tr>
<td>School of Uppsala and Business Networks Model</td>
<td>The concept of psychic distance and networks formulated by Uppsala Theory and Business Networks Model, respectively, are relevant to explain only the first movements of JCDecaux in Brazil. However, there are criticisms that may be raised against the application of this model to the understanding of the explored case, given that the main motivating drivers were more economic than behavioral or cultural.</td>
</tr>
</tbody>
</table>

Source: Based on the literature presented in Chart 1.

According to Chart 5, both theoretical models contribute to the case. It is argued that the economic aspect was the most relevant one to influence JCDecaux’s strategy to decide to enter the
Brazilian market. Then, the approach of the Eclectic Paradigm theory fits better with the case of JCDecaux. In turn, the models of the Uppsala School and Business Networks contributed in a more modest way to understand the first JCDecaux movements in Brazil.

5 CONCLUSIONS AND RECOMMENDATIONS

This paper aimed to identify and analyze the determining factors for the entry of the multinational company JCDecaux into the out-of-home media market in Brazil. Based on the main theories of internationalization, in the economic and behavioral spheres, it was verified to what extent the models can explain the phenomenon. It was concluded that the economic model (Eclectic Paradigm) outperformed the behavioral models (Uppsala and Networks).

Both behavioral models, Uppsala School and Business Networks can explain the gradualism of the company’s commitment to Brazil and the incremental progress of its operations in the country. The company’s long track international experience and global presence have facilitated its entry into the Brazilian market. Besides, the process of learning, accumulation of market knowledge, and stakeholder relations was initially provided by taking advantage of the strategic partner found in the Brazilian market.

However, it can be concluded that the behavioral aspect does not provide the predominant reasons that motivated the case. JCDecaux is the largest company in the industry with great financial capacity, resources, know-how, and international presence started decades ago. Its goal is to be the leading player in major international markets by adopting a strategy that combines organic growth with mergers and acquisitions. In this context, JCDecaux’s decision to develop operations and set up in Brazil derives primarily from a strategic analysis of the attractiveness of the Brazilian advertising and out-of-home media market.

Factors such as risk aversion, psychic distance, lack of knowledge to operate in a specific market, learning and knowledge accumulation are judged to be secondary. Thus, the reasons that best determine the process of entry and expansion of JCDecaux activities in the country are those with an economic rationale.

The combination of ownership, localization, and internalization reasons are identified among the determining factors for JCDecaux’s entry into Brazil. This triad of economic advantages postulated by the Eclectic Paradigm (OLI advantages) outweighed the risks and costs of investing in Brazil, as presented by Hill’s (2002) scheme of attractiveness.

In a nutshell, this paper concludes that the Eclectic Paradigm of International Production offers more satisfactory theoretical support to the explanation of the case. The combination of ownership, location, and internalization advantages were all found in the three main reasons for JCDecaux’s coming to Brazil: the size of the advertising market and growth potential of the out-of-home media sector; diffusion of a favorable regulatory environment following the application of Cidade Limpa (“Clean City”) Law in the city of São Paulo; and growing market potential through acquisitions.

5.1 Limitations

The research encountered difficulties in obtaining the latest and most consolidated data on out-of-home media in Brazil. This scarcity of data about the segment was also reported as a negative feature by the experts interviewed. The segment lacks the most appropriate metrics and data handling that could generate the most reliable and efficient market statistics. Another important limitation is the lack of scientific production about the out-of-home media segment in Brazil, including case studies on the internationalization of companies.
5.2 Recommendations for future studies

Although the use of theories allows the application of hypotheses to explain the phenomenon, the study of an individual case does not infer that necessarily the same conclusions could be generalized to other foreign multinationals setting up in Brazil.

For future studies, this paper suggests that further analysis on a larger number of media out-of-home companies be performed, aimed at enhancing the research on the patterns of aspects which are determinant to the understanding of the internationalization process.

REFERENCES


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