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Case for Teaching

Rethinking Offshoring and International Marketing Strategies during the COVID-19 Pandemic

Repensando Estratégias de *Offshoring* e Marketing Internacional Durante a Pandemia do COVID-19

Discipline: Marketing
Subject: International Business
Industry: Automotive
Geography: São Paulo/Brazil

Luíza Fonseca[1]
Angela da Rocha[1]

INTRODUCTION

At the beginning of 2020, Luiz Filipe Augusto, a partner at IGT Motors and at the time responsible for the company's international marketing and business departments, felt confident about the path of expansion that had begun in the previous year and about the market gains achieved up until that point. With production well established in China, reaching ever-increasing volumes, the company was also selling to Latin and Central America, and was negotiating with potential customers in the U.S. After going through a period of intense adaptations to adjust and certify the product, improve its design and packaging, and review all the company's marketing processes, IGT Motors was prepared for an accelerated expansion.

However, in January 2020, a threat to the successful trajectory of IGT would arise: the outbreak of a new virus in the city of Wuhan, China. To contain the rapidly spreading epidemic, the Chinese government adopted a lockdown regime entailing the temporary closure of factories in some parts of the country. The move affected IGT's suppliers located in Hangzhou, who said it would no longer be possible to deliver orders placed thus far. Then with the spread of the virus to other countries and the declaration of a global pandemic by the World Health Organization (WHO), the challenges facing IGT started becoming increasingly complex. The company's management needed to adjust its production in China, the maintenance of its position in the Brazilian market, and its plans to expand to other countries in the midst of a supply crisis, with distributors in Brazil and abroad temporarily suspending operations, all adding to the emergence of a feeling of animosity toward products made in China.

1. Pontifícia Universidade Católica do Rio de Janeiro, IAG Escola de Negócios, Rio de Janeiro, RJ, Brazil.

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THE COMPANY

IGT Motors was a manufacturer and distributor of vehicle conversion kits for vehicular natural gas (VNG), having begun operations in Brazil in 2001, after the development of its first converter equipment. The company had been financed with the partners' own capital at the time: Luiz Fernando Augusto and an engineer — who would leave the company years later — raised the necessary funds by selling their private vehicles. Rapid growth followed, with the expansion of the use of VNG in the country. After its founding, the company invested in R&D to keep itself updated and to provide products that were functional, safe for customers, and possessed of greater technological content. For three consecutive years — 2017, 2018, and 2019 — the company was honored with the 'Best of the Year' award by the Union of the Vehicle and Accessories Repair Industry of Rio de Janeiro (Sindirepa) in the '5th Generation VNG Kits' category and other categories. Maintaining its innovative tradition and staying attentive to a growing market trend, IGT had begun developing a diesel-VNG hybrid system designed specifically for heavy vehicles, ensuring that engine power would remain intact.

The founder, Luiz Fernando, was in charge of technical direction and responsibility for product development, while his son and partner, Luiz Filipe, managed the company. Even though it was a small Brazilian family company, IGT Motors managed to stay relevant in the domestic market by competing on equal terms with multinational groups present worldwide, and making plans to spread its wings by competing in the global arena as well.

Production was initially carried out in Brazil, but most of the technological raw materials and components used by the company were imported from China, in a process that involved two or three intermediaries. In 2010, the company's management entered into direct contact with Chinese manufacturers for achieving cost reductions, since IGT was purchasing enough volume to justify direct negotiations. Contact with local Chinese producers was established and an agreement was reached that production would be relocated to China. Thus, IGT transferred know-how and technology to a highly productive Chinese partner that would be able to deliver a quality product in a shorter manufacturing time. In this way, the company intended to achieve much greater volumes than those that it was used to producing in Brazil — and at lower costs. Once the manufacturing agreement was signed, and after most of its production process was relocated to China, IGT maintained its product innovation and development team in Brazil. In addition, it assigned two engineers to the Chinese factories to carry out relationship management and maintain quality control of the production process.

At the beginning of 2020, the company had about 60 employees in Brazil and offices in the states of Rio de Janeiro, São Paulo, and Bahia. Internationally, it had two Brazilian employees in China and a distribution structure with local employees in the commercial and technical areas in Colombia and Peru.

The market for converters and auto parts for VNG

In 2019, around 20 national and international brands, including Italian and Polish brands with traditions in the market, were operating in Brazil, selling converter kits and auto parts for vehicles that use VNG as their main or one of their fuels. There were also a few lesser brands that did not develop their own products and only bought kits from Chinese manufacturers to resell in Brazil, competing based on low prices. IGT Motors was the main Brazilian company that developed, sold, and distributed complete kits. Its main competitor was the Italian company Landirenzo, of the Landi Group, which was present in more than 60 countries.

In 2019, the market for VNG converters and auto parts was highly concentrated in the state of Rio de Janeiro, according to Sindirepa, which accounted for more than half of the country's VNG consumption and which continued to show growth rates of approximately 3.2% per year, based on data from Abegas, the Brazilian Association for Channeled Gas Distributors. This was due to the fact that the state had a dense gas distribution network and a law that encouraged the use of gas as a fuel, which reduced the annual automotive vehicle tax (IPVA) rate from 4% to 1.5%. For these reasons, almost a third of the gas stations that sold VNG in Brazil were located in Rio de Janeiro and 84% of the VNG kits installed in 2017 involved cars licensed in that state. Consequently, the market in the state of Rio de Janeiro was the most competitive and most targeted by all companies that sold conversion kits. According to Sindirepa[1], the price point in the state was 10% cheaper than in the rest of the country.

However, even in Rio de Janeiro, with its high demand for VNG converter kits and auto parts, only 20% of the total vehicle fleet used VNG as fuel in 2019[1] (a figure that indicated great growth potential for companies in the sector). Another aspect of possible growth for the industry came from the use of natural gas in the transportation of cargo and passengers, a reality that was becoming increasingly common on the international stage and which would transform road transport and urban mobility into more sustainable and economic models, without causing loss of efficiency. Considering the spread of the conversion of light and heavy vehicles to VNG, demand could increase up to 3.5 times by 2030.

Product distribution varied widely from state to state, with a strong distribution network in some, while manufacturers had to resort to direct distribution in others. The existing distribution network served the converters, which in turn served the end customer. However, some large converters bought directly from the manufacturers. In order to deal with safety issues in the conversion and installation of VNG kits in vehicles, a workshop qualification program was implemented for installation of the equipment, and a certification process was created involving the Automotive Quality Seal. The process began in Rio de Janeiro, but was expected to expand to other states.

National and international expansion

After many years of focusing on the Rio de Janeiro market, IGT Motors decided to expand its operations in other Brazilian states and the strategy proved to be successful. While in 2019 the company oscillated between 30% and 40% of the market share in Rio de Janeiro, in the Northeast it enjoyed up to 70% of the market. The distribution of IGT products in Brazil was both indirect (through distributors) and direct. Since the availability of distributors varied according to the state of operation, the company directly served converters in some locations, in addition to selling to large customers who preferred to negotiate directly with it. The company had two sales teams, the larger of which was aimed only at Rio de Janeiro and the other at national expansion.

One of the company's main challenges in the Brazilian market was to convince distributors and converters that it would be worth investing in a more technological and safer product for its end customers in a highly price sensitive market. Luiz Filipe explained: "Here in Brazil, for the product to gain entrance, we know the amount of tax burden that falls on it... And, at least in this segment here in Brazil, consumers always consider the price: they want it to be cheap, regardless of whether it is Italian or Brazilian, a brand name, or whatever... That is the culture of our market. We have tried to change that; we have talked with our distributors, with the converters... We have made videos for our YouTube channel, talking about our products, the brand, and the importance of using a quality product because we are talking about people's lives. And you can't put a price on that. You have to install the best, most modern and safest product in the customer's car."

With higher than expected growth, and also with international expansion plans on the horizon, the company's management had planned to maintain its relationship with newly acquired customers and to invest in increasing the number of customers only in Rio de Janeiro, where competition was fiercer. Luiz Filipe justified this strategic decision based on the company's structure and human capital, which was still very 'lean.' Consequently, it would be necessary to hire more employees first in order to maintain the sales growth trajectory. In fact, just before the pandemic was declared, the company had intended to hire ten new employees to reinforce its sales, marketing, international relations, and technical teams.

In early 2019, the company's management decided to evaluate some markets in neighboring countries and check the possibility of expanding sales. Luiz Filipe believed that the company had the potential to be successful in this new stage of expansion, as its products were of the same standard of quality and on the same technological level as global competitors. In addition, manufacturing with partners in China guaranteed the potential for expanding production. In his assessment, the company would only need to hire the 'right people' to connect with potential customers in the destination countries, and adjust its product, packaging, and communications to cover a larger number of markets. He stated: "I saw that the company had the product, but we didn't have all the people we needed to start operations outside of Brazil. It was a matter of structuring and organizing to start selling in other countries. In my view, the product is one of the most important pillars for expanding the business. If you have the right people and product, you don't need anything else. We had the right product, which had been awarded. All the world-leading companies sell in Brazil, and we fought directly with them and managed to show our value. That was the point I saw, and I thought: Wow, could we sell outside of Brazil?"

The first step involved participating in an auto parts fair in Colombia, which generated interest from local distributors and led to the beginning of a long process of negotiation, improvement, adaptation, and certification to make commercialization in that country feasible. Luiz Filipe pointed out that the certification of products in each country followed a different process, and starting with Colombia was an advantage because the country had one of the most rigorous protocols among Latin American countries. Thus, after obtaining certification in that country, the following ones proved to be much less laborious. Regarding the time and the company's adaptation process, he said: "We had been working hard on this for about eight to ten months. It was necessary to increase our product line to serve a larger niche, change our marketing and the way we communicate on the boxes, on the packaging, using English and Spanish for materials, folders, catalogs... It was a much better structure than we were using here. We had to do the documentation for all the equipment, the technical design for all the products, in short, a very ponderous job of technical information in order to start the certification process."

Once the first sale to Colombia was made, other orders from all over the continent began to reach IGT through a contact network of distributors in South and Central America. According to Luiz Filipe's experience, the markets in Hispanic countries are much more connected to each other. They exchange information and labor, and they export much more commonly than one might imagine based on the reality of the Brazilian market. Such communication, plus 'word of mouth' between industry players, facilitated the rapid expansion of IGT across the continent. Thus, in 2019, IGT also made sales to customers in Peru and Mexico and started 2020 by negotiating with distributors from other countries, including the United States, considered a major potential market.

COVID-19 — Impacts of the crisis

The economic shocks arising from the pandemic of the new coronavirus and of social restriction measures aimed at containing its spread have led to a contraction of the global economy. In June 2020, the World Bank predicted a global contraction of approximately 5.2%, and that the effects of the pandemic would be felt more profoundly by countries whose economies depended heavily on international trade, tourism, commodity exports, and external financing. The World Trade Organization (WTO), for its part, expected a reduction in global trade activities by 13–32% in 2020, depending mainly on the duration of the pandemic and the effectiveness of responses to deal with it. Based on forecasts by the WTO and the International Monetary Fund (IMF), Brazilian agencies such as the National Confederation of Industry (CNI) and the Institute of Applied Economic Research (Ipea) predicted that the recession would reduce Brazilian exports by 8–20% compared to the year 2019, and that the recovery would take place slowly, gradually, and largely dependent on the recovery of other Latin American countries, Brazil's main trading partners[2].

Even before the pandemic was declared, the effects of the coronavirus on international trade had already begun to be felt worldwide, especially in sectors such as automotive and electronics, whose global value chains are complex and depend to a large extent on the manufacture of parts and raw materials from China and Southeast Asian countries, which were the first to be affected by the virus. In January 2020, China adopted social isolation measures that hindered the global supply of some goods, with investment in manufactures falling 31.5% in the first two months of the year, and a 17.2% drop in exports in the same period[3].

Luiz Filipe reported that, although not all regions of China were forced to close the factories completely, IGT partner manufacturers in Hangzhou were forced to stop production shortly after the celebration of the Chinese New Year due to the relative proximity with the city of Wuhan, where the first COVID-19 cases occurred. Orders already placed and in production could not be delivered, and shipments by sea did not arrive due to the closure of the ports. During the month of February and early March, the company still received orders, but it did not have stock, using what it still had available to serve its domestic customers. In addition, Luiz Filipe recounted the difficulties faced in extracting the employees who worked in China and bringing them back to Brazil, which could only happen some time later. He stated: "The beginning [of the pandemic] was very hard. Here in Brazil everything was running as if nothing had happened. The Italian and Polish brands were selling normally, they had stock… but our company had completely stopped. The Chinese do not keep stock on hand; they only start production after you place an order because they work really fast. Italians and Poles have a lot of stock on hand to serve the whole world because they cannot produce in five days like the Chinese. We always work with three levels of merchandise — one at sea, one in the production line, and one in the warehouse. As soon as the merchandise is released there and is shipped from port, we place another order. The goods that were already in port managed to arrive, but the ones that were at sea were stuck there due to the pandemic, and the order that was at the factory was not produced at all. Not all regions in China were closed, but ours was because it was very close to the epicenter. The beginning of the crisis in China had a huge impact on us; we lost a lot of sales power because the market was running [in Brazil] without our product present."

Some of the orders that were being manufactured in China were destined for distributors in Peru. Right at the beginning of the spread of news about the virus, when Luiz Filipe realized that the products might not be delivered, he warned his clients not to pay in advance, as they normally did, but to wait for instructions, depending on events in China. According to him, this was an important measure for avoiding further constraints and problems with regards to clients, because once the money entered China, it would be very difficult to repatriate it: "China has some peculiarities, and getting money out of there is very difficult. You had better have a very good reason. For example, if I have an account in China and want to send money to Brazil, I have to ask for approval and justify it to the government — it's very complicated."

Once the virus started to spread to other countries and continents and the consequences began to be felt in the healthcare system and the economy in general, the climate of international relations heated up, with some countries supporting Australia's request asking the WHO for an independent investigation into the origin and spread of the virus. As expected, the form of retaliation used to address geopolitical conflicts was the threat to diminish trade between the two countries, with China announcing that it would stop buying products from certain sectors important to Australia's exports, such as wine, meat, tourism, and education. Anti-globalization sentiment, which had been growing steadily in some countries, gained strength, and the U.S. government, under President Donald Trump, one of the precursors of the movement, also spoke in favor of the Chinese Communist Party taking responsibility for the bad management after the outbreak of the virus. Trump also threatened commercial retaliation and a possible impediment to negotiations on the trade agreement between the two countries. Other countries, also under pressure, chose paths that influenced the spread of anti-China sentiment. For example, Japan encouraged its companies to withdraw from the country temporarily, and the UK was under strong pressure to exclude the Chinese company Huawei in the dispute for access to the construction of 5G data networks in the country[4].

IGT Motors, which had always been transparent about how much of its production was done in China, also felt the consequences of increased animosity toward that country after the pandemic was declared, both in Brazil and abroad. According to Luiz Filipe, the resumption of sales, even after the release of trade in the countries where IGT operates, could be slow. At first, some buyers from South American countries expressed fear of viral contamination by products coming from China. To address this concern, the company published a notice with information about the incubation time of the virus and the time that the goods remained on the high seas until reaching their final destination. The notice also highlighted the care taken in production with the handling and packaging of the equipment. In addition, as a form of retaliation, regular customers in Brazil reported that they might switch to products made in other countries. For Luiz Filipe, this action might have even been triggered by competing brands, but, in his opinion, it was an initiative that would hardly be successful, since even the brands that did not produce in China, which were a minority, used components and raw materials manufactured in that country. Even so, there was concern on the horizon, as Luiz Filipe explained: "In Brazil, we have been experiencing a very strong movement of competing companies leading a boycott of Chinese products. It's even funny and doesn't make sense, because they all use Chinese inputs. There is a movement by them to say that we are strengthening China, which 'launched the virus'... And it turns out that some people in the market take that as being true and have this idea of a boycott..."

On the other hand, the company had already adopted measures to show customers that the product, although manufactured in China, was developed in Brazil: "I've been changing my approach a lot lately. I used to say that our biggest line of manufacturing was in China because they are the biggest in the world in terms of production; they are the biggest power and they have the best in technology... Now, I've had to change my approach to win back those customers. I'm emphasizing the fact that we have a secondary line in Brazil, and I'm working on communicating that to them so that they can rest assured that they are buying the product from a serious, honest, and correct company. And as for the sales team outside of Brazil, I have helped them to focus much more on Brazil; that ours is a Brazilian brand; that they should downplay the fact that the manufacturing is done in China."

As an editorial in *The Economist* from July 23, 2020 pointed out that even with the emergence of the coronavirus, China was able to demonstrate that its production capabilities remained unprecedented, with a broad industrial base manufacturing from the simplest products to those with the highest added value and cutting-edge technology. Even with the gradual increase in labor over the last few decades, the country has remained strongly competitive thanks to the combination of manufacturing clusters, first-rate infrastructure, and continuous improvement of its factories. However, a survey conducted by a Swiss bank (UBS) during the height of the pandemic showed that 76% of American companies, 85% of North Asian companies, and even 60% of Chinese companies had already made changes or had planned to move part of their production out of the country in the short to medium term as a way to protect themselves from eventual risks linked to maintaining 100% of their production in a single country.

Future challenges

At first, Luiz Filipe did not consider breaking up partnerships with Chinese manufacturers, but he knew that, even if he did, it would not be to bring the entire manufacturing process back to Brazil. He explained: "After we went to China, we left a production of five thousand pieces of equipment for 'the sky's the limit.' If I say that I need a hundred thousand pieces of equipment, they will release a hundred thousand. In Brazil, as I understand it — but I do believe it could change —, I don't see a strong, heavy production line. The Chinese are focused while they work. I don't see the culture of the Chinese people here. Here it's completely different; it's much more relaxed, completely different... Nowadays, Chinese factories have the latest technology; everything is very technological."

Moreover, manufacturing in Brazil would not only compromise the potential for rapid volume expansion, but would also impact product costs. Whatever the case may be, Luiz Filipe believed that the company would hardly withdraw production from China; he intended to wait and see how events would evolve: "We are still looking at the proportion that this will take, but we are working on that. We are evaluating taking part of the manufacturing done in China and reinforcing the fact that the product involves Brazilian technology. Although I believe that manufacturing there is a good thing, we are trying to say that it is a national product, developed here. ... But this is very complicated. Especially when we are going to resume negotiations with the U.S., because if we say that manufacturing is done in China, it will be very complicated. The retaliation there is ongoing. ... Now I need to change my approach to win back those customers. I'm emphasizing the fact that we're building a secondary line in Brazil for products that usually come from China. ... Because people are really angry, at least the ones I've talked to about our market. Actually, the problem really would have been China's omission. This is their point of view, and because of that, the market is coming together for a boycott. I don't know if that is a feeling for just now, but it seems that it could last until the end of the year."

IGT's plans for the near future included focusing more on Latin American countries, and just continuing to approach the American market a little further. Even with the setback for global expansion, the company did not intend to postpone those plans; on the contrary, they intended to invest even more in new markets outside Brazil: "In relation to the U.S., I'm going to hold off on negotiations a bit longer because everything is still very recent. I'll focus more on Latin countries, Central America, countries that are using Italian equipment and that already work with VNG. And I believe that penetration there will be much easier than in the U.S. for now. Focus on Bolivia, Argentina... where there is also an interesting market. The U.S. — who knows? In January or February of next year, we can start talking again, after things have quieted down a bit. We haven't lost interest in exporting; on the contrary, we're going to further strengthen our export process because, with this period of being at a standstill, a lot of companies that had long-standing relationships with some brands have ended up opening opportunities for new brands. They have reassessed their contracts, all their partnerships, and so the market is a little more open and dynamic; there are new opportunities: there are people who are using this time to test new equipment; under normal circumstances, they would not do that."

In addition, the pandemic has had negative effects on the distribution structure, with a sharp rise in defaults and the closure of many companies, particularly distributors, with repercussions for IGT, as noted by Luis Filipe: "Another point is the issue of default. After the pandemic happened, financial transactions were put on hold too. People stopped paying us. I have a turnover of two to three million reais a month and I had a default of eighty to ninety percent in Brazil. Here, there is an avalanche of people leaving the market. And abroad too, a lot of distributors have gone bankrupt and left the market. They paid everyone, zeroed their account balances, and left. For example, in Colombia I had two distributors that I was going to work with, but because of the pandemic, they left the market. They were distributors with years of experience in the market, but they couldn't endure this crisis. They closed, possibly to reorganize their business later and resume."

In the midst of this situation, executives met as often as possible via videoconference to assess the evolution of the pandemic and the events and changes in the market in order to determine the company's position and the short- and long-term strategic moves that should be taken in order to mitigate the effects of the pandemic, not only on production, but also on sales. There were questions such as: Should we proceed with international expansion now? What countries should we focus our efforts on? How do we adapt our communications to emphasize the safety of IGT's products? What might be done to prevent similar problems in the future? Such questions were constantly asked at meetings.

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Teaching Notes

ABSTRACT

This teaching case focuses on the national and international expansion of IGT Motors, a Brazilian company operating in the market for twenty years that has moved most of its production to China since 2010. Nearly after the company started searching for new markets abroad and adapted its internal and communication processes to comply with other countries' preferences and regulations, the outbreak of the COVID-19 pandemic led top management to rethink its production and marketing strategies, specifically hit by involving China, country of origin of the virus. The case is about how small companies in the midst of a global expansion can deal with unexpected scenarios and emerging crisis, engaging students to reflect upon the initiatives that might be taken to overcome issues such as consumer animosity, but also to make the company less susceptible to similar situations in the future.

Keywords: international business; international marketing; global value chain; COVID-19.

RESUMO

Este caso de ensino tem como foco o processo de expansão nacional e internacional da IGT Motors, empresa brasileira que atua há vinte anos no mercado, e que produz a maior parte de seus produtos na China desde 2010. Pouco tempo após a empresa iniciar a busca por novos mercados no exterior e adaptar todos os seus processos internos e a comunicação para atender às preferências e regulamentações de outros países, a eclosão da pandemia do COVID-19 a levou a repensar suas estratégias de produção e marketing, que foram especificamente afetadas por envolverem a China, país de origem do vírus. O caso trata de como empresas de pequeno porte em meio a uma expansão global podem lidar com cenários inesperados e crises emergentes, ensejando os alunos a refletir sobre as iniciativas que poderiam ser tomadas para superar questões de animosidade do consumidor e tornar a empresa menos suscetível a situações similares no futuro.

Palavras-chave: negócios internacionais; marketing internacional; cadeia de valor global; COVID-19.

Purpose of the case

The main objective of this teaching case is to enable the students to reflect on the dilemma of an entrepreneur who had a solid company in the national market and started the process to become a global competitor when he was hit by external shocks that frustrated the company's immediate plans and forced it to rethink some of its strategies, mainly concerning communication and marketing in the short term, and production and supply in the long term.

Target public

The case was designed for stricto or lato sensu graduate students, ideally in disciplines related to international business or international marketing.

Information sources

The case was constructed based on primary data from three interviews with one of the partners and director of IGT Motors, who was responsible for the company's marketing and international business departments, and with support of secondary information obtained from the websites of market associations such as Sindirepa and Abegas, plus newspaper and magazine sites with news about the pandemic and the global situation.

Proposed issues

The following questions are proposed to guide the debate in the classroom:

1. What are the problems faced by the company?
2. What short-term actions did the company take to overcome the insurgent problems resulting from the pandemic?
3. Is this the best time for the company to seek out new markets, or should it focus its efforts on recovering lost sales in the domestic market?
4. If it were to decide to continue with the international expansion, what strategic changes could the company make to reduce its dependence on supply and overcome the negative effect of the association with products from China?

Discussion and analysis plan

The present teaching case assumes that the students have done the assigned reading and that they have thought about the main points addressed for a classroom discussion of approximately one hour and thirty minutes, according to the following allocation of time:

- Announcement of the discussion and division of the class into groups (5 minutes);
- Group discussions of the proposed questions (25 minutes);
- Classroom analysis of the case (45 minutes);
- Closure and review of all proposed responses (15 minutes).

To start the discussion, the instructor could ask students to comment on the company's trajectory and its decisions involving the internationalization of some parts of its value chain (production) and its expansion to other markets in South, Central, and North America, highlighting the reasons and commitment to the internationalization strategy. Next, it is suggested that students delve into the specific questions of the case, with each group encouraged to contribute their opinions to foster a discussion with pros and cons for each of the initiatives that the company has taken and for possible alternatives to solve the problems in question. To effectively open the discussion, the instructor could encourage students to reflect on the question: How did the pandemic affect the company from the time it first appeared? Subsequently, students should list the problems faced by IGT Motors, both the short-term ones (immediate issues) and the long-term problems (fundamental issues). Even if the answers appear in a disorderly manner, the instructor could use the table to list the points in an organized and separate way, as outlined below. The immediate problems caused by the immediate impact of the epidemic on the company include:

- Temporary interruption of production;
- Loss of sales in the domestic market, with the possible consequence of losing customers;
- Distributor default;
- Customer animosity toward China and consequent rejection of the brand's products for being manufactured there.

However, these problems are only the visible aspect of the strategic challenges faced by IGT's management, which must make decisions regarding the problems it could face in the long term:

- Need to reorganize the production chain, if anti-China sentiment continues for a longer time;
- Possible occurrence of other crises in the future, which would invalidate the concentration of production in a single country;
- Disruption of the distribution system in the countries to which IGT is selling or intends to sell its products;
- Economic crisis generated by the pandemic, which may have significant long-term effects for the company.

Next, the instructor should encourage students to discuss the question: What were the immediate measures taken by the company to deal with the situation? Besides displaying the problems on the board, the solutions can also be listed with bullet points. The immediate measures taken by IGT to minimize the impact of the interruption in the supply of equipment from Chinese factories were:

- The stock available in Brazil was allocated to the domestic market.
- International customers were notified of the shutdown of Chinese factories, and those who had already placed orders were warned not to complete the payment to be made to IGT's office in China.
- The company issued a notice to all of its customers reassuring them about the virus's incubation time, the time it spends aboard ship/in stock, and the precautions that were being taken to avoid contamination of the goods.
- The sales team and brand representatives abroad received new guidelines on communicating with prospective customers.

Continuing, the instructor should propose that students evaluate whether or not IGT should proceed with its international expansion strategy, in view of the turbulent situation that the market as a whole and the company in particular faced at the time. The instructor is expected to guide the students in reflecting on the points presented in the case that indicate the company's logic to decide to proceed with the internationalization strategy, only temporarily postponing negotiations with the U.S., a country in which the animosity toward China was most intense. Until the situation normalized, the company intended to maintain contact with its customers in Brazil and those recently acquired abroad in order to ensure that they would not be forgotten and that negotiations could be resumed as soon as possible, as production had already resumed. In addition, IGT was making changes to the company's international marketing strategy in order to overcome the recent barriers of the negative effects resulting from China's manufacturing of the products. In order to further explore the concepts of the effects of the country of origin and how the image of a country influences customer intent to purchase imported products, we suggest the articles referenced in Table 2. The articles by Westjohn, Magnusson, Peng and Jung (2019)and Leong et al. (2008) are highlighted for specifically addressing the phenomenon of consumer animosity toward products from other countries in times of crisis, protectionism, and demonization of adversaries.

According to Aiello et al. (2009), consumers' perception of the country of origin of the products is, in most cases, relatively well divided between the country responsible for the design of the product and the country in which it is produced or assembled. In the case of IGT, the company acted correctly when changing its communication strategy, emphasizing only that the company is Brazilian and is responsible for the development of all its products, leaving aside the aspect of the origin of production, which was previously seen as positive. As pointed out by Pandya and Venkatesan (2016), French brands that were less associated with their country of origin suffered less from the boycott by American consumers due to the countries' opposing stances in relation to the Iraq war in 2003. Another interesting point for IGT is the fact that, by acting mainly in a B2B market, the effects of consumer animosity tend to be less felt than in B2C markets (Edwards, Gut, & Mavondo, 2007). Other recommendations for overcoming the effect of consumer animosity involve adopting communication that promotes different cultural values, emphasizing language and themes that refer to harmony, interdependence, and values that are more oriented toward the long term, such as flexibility, pragmatism, and focus on the future (Westjohn, Magnusson, Peng, & Jung, 2019).

As much as IGT's early experiences with the global market had been largely frustrated or hampered somewhat by an external factor, the company's management did not intend to give up on that front of action, and would continue to invest in relationships with its potential clients in neighboring countries, even if some of the contacts that had already been made were facing difficulties or were getting out of the market altogether. Although external shocks and periods of recession decrease the supply of credit, which is sometimes essential for small businesses to maintain a healthy cash flow relative to their exports (Bricongne, Fontagné, Gaulier, Taglioni, & Vicard, 2012), other studies indicate that sunk costs involved in the export process make companies prefer to adjust their margin and reorganize the scale of exports rather than halt activities completely (Melitz & Ottaviano, 2008). More recently, Timoshenko (2015) also emphasized the importance of the learning involved in the export process to explain the persistence of companies with foreign activity.

In fact, in light of the crisis IGT did not show any intention of focusing solely on the domestic market, since the process of adapting products and receiving certifications had been completed, the company already had employees and representatives working in other countries in its name, and export activity was no longer a mystery. Above all, the company's management also believed that the diversification of markets at that time would help it get through the crisis more quickly because it was not possible to predict how the economic recovery of Brazil and the other countries in which IGT was operating would play out. A number of recent studies on the international entrepreneurial behavior of small and medium-sized companies indicate that uncertain times and declining demand due to economic crises encourage entrepreneurs to seek cross-border strategies as a way to recover more quickly (Éltető, 2019; Giatopoulos, Kontolaimou, & Tsakanikas, 2017). The only front of negotiating that IGT might put on hold for a period would be with its U.S. customers, since, even before the pandemic, the U.S. was in a trade war with China. De Nisco, Massi and Papadopoulos (2020) stress how the position of nationalist governments can aggravate the sentiment of animosity and ethnocentrism on the part of consumers against countries considered responsible for their difficulties.

After discussing and expounding on the issues that influenced IGT's decision not to abandon its international expansion strategy, the instructor may introduce the final question, which addresses the fundamental issue presented in the case, to wit: What might be possible solutions for the company to be able to overcome its dependence on Chinese supply and to circumvent the possible negative effects associated with it? Once again, the board may be constructed according to the suggestions proffered by the students, based on the organization presented in Table 1, which analyzes the pros and cons of possible alternatives.

Table 1. Pros and cons of possible alternatives for IGT.

Description of alternative	Pros	Cons
Maintain production in China and wait for the peak of the moment of instability to pass to see if anti-China sentiment and consumer animosity will in fact remain a problem for the company in the future.	The company operates in the B2B market, which is more pragmatic and less susceptible to the effects of animosity.	The company is at risk of losing the timing to enter relevant markets such as the USA; If the feeling lingers, it may be too late to get around the situation.
Search for possible suppliers in other Southeast Asian countries as an alternative to sole production in China.	Diversifying production would reduce the risk of being without suppliers in adverse situations; The company could ship its products directly from new delivery locations to countries whose anti-China sentiment continued indefinitely.	The company would incur new costs associated with finding partners in other countries and would eventually retain its own employees to manage production as it currently does in China.
Increase efforts in a marketing campaign that reinforces the image of the product as Brazilian, regardless of the decision about the place of production.	The company has already started this marketing effort.	Even so, it may not be enough to prevent a boycott of the brand, if it remains in China; It may be impossible to change the previously projected image.
Create a new brand with similar characteristics, produced in a country other than China, and invest from the beginning in the image of 'Brazilianness.'	The existing brand may already have an image associated with China and IGT is unable to change the previously projected image; It can be sold to customers who remain with anti-China sentiments, while the previous brand could continue to be sold to others.	It is more difficult for a small company to work with two brands; Higher marketing costs for two brands.

Grappi, Romani and Bagozzi (2020) analyze the phenomenon of 'reshoring' (as opposed to the concept of offshoring; in other words, bringing production activities back to the company's home country) from the perspective of demand, and they highlight its benefits in terms of image gain in relation to consumers, mainly when they resolve issues of animosity in relation to the country previously responsible for the supply. However, the authors recognize that these benefits cannot be taken into account in isolation, but only when other factors also point in favor of this decision. Although this alternative may have been a possible solution to IGT's problems, it was not really considered by the company due to the high production costs in Brazil and the impossibility of duplicating the volumes produced by Chinese factories in a short period.

On the other hand, the possibility of importing products to be completed in Brazil and later exported to other countries would not be feasible. Even if the product passed through Brazil only for minor adjustments in order to bear the label 'Made in Brazil,' import taxes plus the logistical costs of the two stages would make the company's competitiveness in the foreign market unfeasible. The import fee paid by IGT for Chinese products to enter Brazil is around 15%, while the U.S. only taxes at 3.6% and Mexico 2%, for example.

Greater marketing efforts, such as those already initiated by the company to create an image of 'Brazilianness' for its products, might be another option. However, it is often difficult, or even impossible, to create a distinct image for the product, mainly because the company had emphasized its Chinese origin. If so, there could still be the option of creating a similar product and then selling it under a new brand if, from the beginning, it were presented to the market based on its characteristic of Brazilianness.

Table 2. Theoretical perspectives addressed in the case.

Theoretical perspective	Concepts addressed	References
International marketing	Country of origin	Magnusson and Westjohn (2011) Magnusson, Westjohn and Sirianni (2019) Wang, Li, Barnes and Ahn (2012)
	Consumer animosity	De Nisco et al. (2020) Edwards, Gut and Mavondo (2007) Grappi et al. (2020) Leong et al. (2008) Westjohn et al. (2019)
International entrepreneurship	Effects of the crisis on entrepreneurial activity	Bricongne et al. (2012) Élteto, 2019 Giotopoulos, Kontolaimou and Tsakanikas (2017) Giotopoulos e Vettas (2018)

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Authorship

Luíza Fonseca*

Pontifícia Universidade Católica do Rio de Janeiro, IAG Escola de Negócios
Rua Marques de São Vicente, nº225, Gávea, 22451-900, Rio de Janeiro, RJ, Brazil

E-mail address: luizaneves@phd.iag.puc-rio.br, luizaneves@id.uff.br

https://orcid.org/0000-0002-7370-8910

Angela da Rocha

Pontifícia Universidade Católica do Rio de Janeiro, IAG Escola de Negócios
Rua Marques de São Vicente, nº225, Gávea, 22451-900, Rio de Janeiro, RJ, Brazil

E-mail address: amc.darocha@gmail.com

https://orcid.org/0000-0001-6651-0933

* Corresponding Author

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2nd author: conceptualization (equal); data curation (supporting); formal analysis (equal); investigation (equal); validation (equal); writing-original draft (supporting); writing-review & editing (lead).

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