

Urban, Lúcia; Vaz, Teresa Noronha

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Segmented Markets, Cooperative Behaviours: Innovation in the Production of Brazilian Coffee

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**Segmented Markets, Cooperative Behaviours:
Innovation in the Production of the Brazilian Coffee**

Teresa de Noronha Vaz¹ and Lucia de Paula Urban²

Abstract

The present article aims to discuss some the organizational and institutional aspects that have become the basis for the development of coffee as a non-commodity product in Brazil. It is expected that due to new patterns of coffee consumption, a new strategy permits the competitive reinsertion of Brazilian coffee into the international markets. The suggested methods, interviews to the driving stakeholders and observation of the respective networking systems, are applied in the different stages of the supply chain in order to demonstrate that the production conditions are imposing specific strategic interrelationships between the roasting and the grinding industry and among the several intervenient actors. It is observed that most of such processes take place within a new context of competition where innovation, segmentation and product differentiation are more important factors for the international market than cost and price reductions, thus thereby demanding a serious redefinition the companies' strategy dynamics.

The results detect the application of the concept of flexible specialization as a fundamental input. They corroborate some of the analytical elements which are essential to explain export revitalization actions acquired from specific attributes such as, for example, highly qualified managers, able to adapt to continuous innovation, also detecting territorial advantages to be introduced in the chain values. It was also observed that, for the whole productive segment, the qualified management reflects a strategy that is inserted into a wider policy issue. In this successful case, companies and government have closely interacted in order to provide the ideal conditions to overcome the global competition by means of benchmarking and differentiated consumption standards. Finally, another major conclusion is that there exists an historical capability of public and private interests to interact. Such has been decisive to ease difficulties arising from market fluctuations and facilitate technical and institutional innovations.

Key Words: Organizational Innovation, Segmentation, Cooperation, Brazilian Coffee

¹ Corresponding author: mtvaz@ualg.pt, Faculty of Economics and CIEO – Research Centre on Spatial and Organizational Dynamics, University of the Algarve, Portugal

² Paranaense Institute for Development, Curitiba, Brazil

1. The Adaptation of Agriculture to Segmented Markets

Worldwide, and in particular in Europe, agriculture is a wide-ranging activity tending to be multifunctional (Huylbroeck and Durand, 2004). One of the first activities tightly linked to agriculture from the very beginning of the industrialization process it was the food industry (Connor and Schiek, 1997). Today, the agribusiness as a unique model for food production is in re-evaluation but it still represents most of the outcome of world agricultural production.

In general the central argument and concern related with food associated to mass production is how this model is able to safeguard the human wealth or develop according the increasing transport prices. Policy makers and independent producers started new productive models based on proximity and originating many changes in the rural land use (Noronha Vaz, et al.).

Firstly, such changes were due to changes in property structure resulting from new associative practices that helped to solve some of the natural tensions following-up from the growing vertical relationships within industry. But, later on, commercial circuits of proximity took significance and local production reshaped, taking a new breath in the consumption patterns.

It may therefore, be important to address some key developments in the agricultural food market:

1. Profits for firms in the food industry have been analysed by Weiss (1974), who provided new insights about how market power has consequences for industrial organization including the primary sector. Cotterill and Iton (1993) studied the structure-performance relationships within the food systems, concluding that concentration is one of the most significant determinants of business profitability in this sector.
2. Therefore, it is not surprising that for a long period much of the efficiency of the food supply chain has been driven by vertical coordination in production distribution, mainly characterized by a tendency for decreasing prices at producers' level and increasing pressures for long-lasting payment conditions – which are, in general, much

more advantageous for distributors centrally located than for producers, widely distributed. A note on the raising agglomeration economies that this structural organization of the food sector in general causes.

3. In an unavoidable scenario of market power that has also affected the international trade channels, price decreases have caused additional limitations for farmers, adding indirect restrictions to the rural development of many localities. Gadde (2004) discussed on this basis the growing tendency for the development of two distinct marketing structures: the global and the local productive forms which may be differentiated by the simplicity of the marketing channels and the level of proximity that producers have with consumers.

Later in this paper other, more elaborate arguments, will confirm Gadde's view, calling for the existence of two very distinct industrial models co-existing in our modern society. Indeed, it should be made clear that, for several key branches of the food sector like cereals, dairy products or wine, for example, and for many years, the CAP applied a very complex price support system that to a great extent influenced farmers in a way that was almost totally out of their own control. Particularly in the case of Europe, the long term relationship of European farmers to industrial mass production and global markets was evident (Daugbjerg and Swinbank, 2004 or AgraEurope, 2005 or Hockmann and Vöneki, 2008), in certain cases deviating production processes from the natural capacity of many locals and regions.

Today, the lack of effectiveness in the agri-food system, in general, to allow permanent technical change is disrupting several long-established links and is orienting production towards diversification and flexibility (Boyer and Durand, 1998). A new model basically oriented to local markets may determine labor specialization in a context of local identity and the increasing number of consumers with arguments related to quality and traceability could help to producers of local short circuits to sell more and better (Hinrichs, 2000 and Thøgersen, 2008).

Moreover, it has become clear that the flexible productive process may represent a solution to growing consumer concerns regarding the impacts of the uncontrolled industrialization of foods upon human and animal health. This awareness emphasizes the basis of what has started to be in the present, and will continue to be in the future,

the new drivers for agricultural production: i) food safety and human health; ii) the environmental long-term impact of industrialized agriculture; iii) agricultural welfare; iv) ethical animal use; and, finally, v) issues related to fair trade on a world scale. These trends will certainly influence the future trends of rurality in Europe (Covas, 2007).

While accepting that other productive forms than mass production, based upon segmentation and networking are flourishing, a solid argument is provided in favour of the value of local production to strengthen the food systems. Such forms that are based on labour specialization, but also combine long-term learning processes can facilitate technological innovation (Avermaete and Vandermosten, 2008), to break through in less favoured regions or localities in a process which may be crucial for the sustainability of some rural areas (Parrot et al., 2002).

This search for flexible production can, in fact, reach extreme situations of unorganized and very dispersed forms: a significant number of cases were observed and identified as ‘alternative agri-food initiatives’ (AFIs). They represent emerging structures of community-supported agriculture, farmers’ markets, urban agriculture, and regional food labels. In practice, these efforts stand for new kinds of action linking consumers to the traditional focus on farmers and production (Vaz and Nijkamp, 2008a, b). In this new politics of food, activism is embodied in quotidian necessities and experiences, representing commitments able to join and motivate different interests and people throughout the whole food chain (Allen and Goodman, 2001).

While in Europe, agriculture has advocated a restricted concept of rural development (particularly in the northern and central parts), worldwide, however, rural areas have been the object of different development paths and have a much greater influence on the development of the urbanized areas. In South America, Africa or India where urban dynamics also depend on how rural small towns are managed, the rural lifestyle has guaranteed, so far, social security, indirectly facilitating the future growth and development of most countries (Hayami, 2007)

While the empirical evidence proves the existence of a diversified rural world, a major factor remains as its common bastion: the particular rural identity. Charged by the historical past, the rural identity is translated into a spatial profile for which precise sets of values reflect different *modis operandi* and specific contexts for tacit knowledge.

And this phenomena may be reflected upon the regional or local production. Furthermore, with increasing globalization it could be interesting to discuss whether rural identities are tending to merge to a global and unique concept or, on the contrary, whether each rural context should preserve its local characteristics as positive contributions for regional and national competitive performances. To respond to these concerns two considerations are relevant:

1) Firstly, taking into account that the existence of internal economies requires the increase of size or scope in productive activity, the role of competition and technical innovation should be understood as tools to frame or to expand them. At the limit, when diseconomies take place, the disaggregation of the productive system occurs as if the permanent need for innovation and segmentation of the production processes was a natural occurrence in a physically saturated environment. To cope with segmentation small firms are the best elements, provided they are innovators, as they adapt fast solutions to the technical specificities of diversification.

2) Secondly, the culture of the firm and its level of embeddedness are of utmost importance to better understand the process underlying local competition. Farms and firms located in rural environments are generally small and tend to develop close links with nearby institutions. Such links, however, have an unstable nature and are a field of conflicting and contracting tensions. This is particularly valid if segmentation dominates the productive process. How to handle such difficulties depends on the organizational forms of the productive systems and how they are able to find adequate solutions for an effective and efficient coexistence. Amongst other things, innovation and regulation provide insights that bring positive results mainly in the area of cooperation and networking.

2. The Determinants of the Exporting Movement in Small Companies

Chandler, 1962 and Penrose, 1963, were the first authors to carry out studies showing that company diversification is based on changes that can be understood as answers to the market variations. According to the authors, by making use of new market strength, companies' growth is directly connected to a cumulative and continuous knowledge and control process, which working as information is addressed to define permanent reorganizations that affect the company whole structure and its market relationships.

Authors following this line of thought (Carlson, 1975 and Johanson and Vahlne, 1977) considered exporting as being the first significant source of knowledge on foreign markets characterization and operation. This provides reduction in the bureaucratic or legal and policy or institutional environment uncertainties, as well as the local social or cultural value uncertainties. Besides, it permits to develop those abilities required to control a wide variety of imperfections existing in different markets.

The pervious arguments have some criticisms (Stubbart, 1992; Andersson, 2000 and Björkman and Forsgren, 2000), especially when there is an excessive valorization towards acquiring knowledge through market experiences, that's to say, the learning by doing limits as expansion and growth mechanisms used by companies operating in new markets.

In this discussion also networking has been explained as a important factor for the international business dynamics (Johanson and Sharma, 1987; Johanson and Vahlne, 1990 and Andersson and Johanson, 1997), proving that besides the economic factors that influence company success in foreign markets, also the intangible values (deriving from personal, social and political relationships) do increase the explanatory power of the determinants required for operating in new markets. Cooperation in networking environments can become, indeed, the basis for opportunities and multipliers mutual interests in the business world (Vaz and Urban, 2000).

3. The Segmented Markts of the Brasilien Coffee

Coffee is one of the most important products of the brazilian food-farming sector. Its production is considered to be emblematic and its history synthetizes the multiple dimensions of a decisive role in the Brazilian economic development. Coffee production and distribution depicts the country path complexities to join the global markets. And, all those efforts made to keep such *commodity* in the world market for over 150 years represent a unique synthesis that provides essential elements to understand the huge challenges faced when building the non-commodity coffee exporting movement (Delfim Netto, 2001).

In this paper we have followed the process innovation behind the introduction of coffee as a differentiated product in the international markets. New conditions have comprised a great number of new services, knowledge and learning in a way able to comply with each country and consumer segment peculiarities.

As a differentiated product, the roasted and ground coffee requires extremely focused and specific company strategies based on a technical-economic paradigm governed by continuous innovation (Asheim, 1992) required as a determinant source to add value to the product.

The current production process structural changes, expressed by a greater fragmentation of the value chain in the coffee production, allows an increased division of work, manufacturing flexibility and product development, always establishing new inter-intra company relationships. Company production capacity, competencies and strategies are redefined within such context, thus an increasing the number of activities converge to improve the conditions for insertion in segmented markets.

The roasted and ground coffee insertion strategy addressed to the international market assembles one of the smallest segments of the coffee production chain and can be considered a good example of a change joining the whole production chain in seeking wide quality valorization, that is increasingly being considered an important factor to overcome the market stigma that the country produces quantity in detriment of quality. Brazil is a country that has a comparative advantageous coffee production supported by a strong regulation system that remained in force for almost 90 years. Although the quality issue had already been focused, it was just after deregulation that the required conditions to boost that movement turned out to be effective.

The lack of participation in the roasted coffee international market is one of the structural characteristics of the Brazilian coffee export schedules that gives weight to instant (15%) and green coffee (85%) industrialized in the importer countries.

The insignificant Brazilian export participation in the roasted coffee segment, the most important concerning the world coffee consumption, contrasts with the high performance of the Brazilian green coffee trade. The country accounts for 25% of the

green coffee international market with 20 million bags/year, 10% of the instant coffee world consumption with 2 million bags/year and 50% of the international market. Concerning the roasted coffee, the Brazilian position is extremely marginal. The importers consumption accounts for about seventy million bags a year, but the Brazilian participation not even reached forty thousand bags in 2001 and 2002.

The required innovations add an outstanding synergy to Brazilian coffee trading new ways and mechanisms, thus it is especially important to join the roasting and grinding market not just because it opens new trading opportunities but also because it renews the Brazilian position in that market. Furthermore, such reorientation creates a type of dynamics that allows a great number of small and medium companies to comprise the roasting and grinding market, thereby exploring new export dimensions.

The present paper outlines the earlier mentioned industrial segment profile through secondary information and elements of its recent dynamics obtained through qualitative and quantitative interviews carried out within the related industries. Industry profile building contributed to understanding the exporting company problems and segmentation-diversification phenomenon.

3.1. Roasted and Ground Coffee Industry

The insertion of the roasted and ground industry into the exporting movement represents the advantage of a new standard mainly stimulated by deregulation followed by a configuration of the domestic market towards a strategy with a clear talent for quality.

Historically, Brazilian exports have given priority to high quality beans, while the segment industries addressing their attention to domestic market were dealing mainly with leftovers of inferior quality. It took time until industries could take into consideration the perspective of an improved quality. This happened when they noticed that it was possible to show the product quality differences to the Brazilian people, thus, conquering a significant market segment. The strategic challenge was calling for actions concentrated on two goals: first, consumers who valorized quality and, second, companies able to reshape consumer preferences, thereby correcting a serious distortion

that could eliminate coffee adulteration and a stigma: the one that has labeled Brazil as the worst-quality domestic coffee market.

3.1.1 *Small regional companies*

Due to those changes mentioned, raw-material requirements turned out to be more demanding, in such way that the industrial structure of the sector maintained its characteristics of low concentration and small regional industries.

The proliferation of roasting micro-companies directed to local consumers is due to the roasting and grinding process simplicity combined with the possibility of manufacturing small amounts of high relative value raw-material still associated to its condition of basic component of an essential consumption standard. Those industries are spread throughout the Brazilian territory, no matter if they are close or far from the raw-material supplier, as can be seen in Table 1.

High predominance of small companies is a standard in the toasted and ground coffee segment, but their most significant concentration happens in the states of São Paulo e Minas Gerais. At the same time, between 1996-2001 the sector showed a differentiated dynamics since the number of companies with more than 50 employees increased significantly, in such way that they are accounted for job increasing from 15,581 to 16,664, in that period of time, as can be seen in Table 2.

3.1.2 *Brands and concentration*

We were able to qualify the structure of the sector taking into consideration the number of brands each company uses as market dynamics *proxy*. Among 485 companies, almost 40% operate with just one brand. A segment with the same dimension operates with two brands, thus 80% of these companies have no more than two brands in the market. The few companies that operate with a greater number of brands are concentrated in the main producer regions. A more detailed analysis of the 100 bigger ABIC member companies that were used as reference to field investigation shows that this group accounts for 60% of the toasted and ground coffee in the country.

As it can be seen in Table 3, this group includes large national and multinational companies with high production capacity, as well as a great number of medium and small companies that fit into the sector prevalent standard. Technological benchmark, production patterns, market insertion and company formalization degree are their common characteristics.

Company size classification defining four company groups was based on production amount data (number of produced bags). The 10 largest companies accounted for 70% of this group production in 2001-2002, what's equivalent to a 41.7% of the domestic production, but there was a wide variation between them. The company in first place itself accounted 16% of the domestic production, far from the first, the second company accounted 7% and the tenth for just 1.3%. The participation of other groups is smaller but more homogenous, since the 35 companies classified as very small accounted for 3.2% of the domestic production and for 5.4% of the 100 largest company production in the same period (Table 4).

From the 10 largest companies, six are located in the main production area comprising São Paulo and Minas Gerais and account for 28.8% of the domestic production. This standard has the tendency to be repeated in all the other groups, since half of the 100 largest domestic companies are located in the 2 states aforementioned.

3.2. The exporting movement

Concerning the segment industrial structure, the study noticed that, independently from the data collected, it is evident that the small and medium companies predominate and are the main exporting movement participants.

Trough a general analysis of the Brazilian export performance focusing in the company size, it is evident that there is a trend towards strengthening the concept that product differentiation and market segmentation provide business opportunities and a theoretical reference to understand the increasing presence of small and medium companies in the world market. From 1991 to 2001, the number of Brazilian exporting companies grew from 12 thousand to 16.2 thousand, what's equivalent to a 34% growth. In the same

period small Brazilian industry exports increased 77%, while the medium and large company growth was 18%. Although large companies account for 80% of domestic exports, small companies increased their participation from 7% to 10% between 1995 and 2001.

Due to their participation in the exporting movement, small companies have some *expertise* concerning international market, what facilitates their performance in “culturally” different markets (Guimarães, 2002).

In fact, not just the number of exporting companies increased, but also companies diversified their exporting schedule. In 1995, Brazil exported 4,169 product items classified as 4 digits by NCM and in 2001 that number increased to 4.391. Concerning the number of exported products, small companies increased 25%, large companies 5% and medium companies 32%. Such results indicate a very particular situation where small and medium companies find out they have a competitive power that allows them to introduce new products in the international market successfully (Guimarães, 2002).

From 1995 to 2001 some agribusiness sectors, such as coffee, soybeans and leather footwear were particularly distinguished for they experienced an increased number of small and medium companies (Table 5). Thus, we can noticed that the coffee sector small and medium companies followed the trend towards a crescent participation in the international market.

4. Organizational Innovation: Using the Past to Ease the Future

The present research sample is composed by 100 small, medium and large companies considered to be the largest of the sector, (by volume of production). The sample was created from 485 members of Associação Brasileira das Indústrias de Café (ABIC) (*Coffee Industry Brazilian Association*). This association accounts for 78% of the toasted and ground coffee production in Brazil and the set of companies in the sample accounts for 60% of the toasted and ground Brazilian total production.

The specific research methods were applied to 54 answered questionnaires, out of the 100 sent to the considered companies, completed by 33 interviews with the entrepreneurs.

In general each company has been followed in a comprehensive way: there was an immersion in the sector company reality through visiting the other industries of the region and those institutions representing the bean quality forefront movement.

4.1. Inherited Networks

We can say that the process of non-commodity product insertion into the international market finds in the two categories analyzed by the Uppsala School – knowledge of the exporting experimental market and large coffee business net – business environment expressions built for over a century. One of the necessary measures it was to face the import market imperfections by strengthening the interrelation between the several links of the commodity coffee chain. This was only possible developing a close contact between the involved actors, thus permitting commercial and political growth as well as the consolidation of corporative and institutional representations. That's to say, multiple information channels were created and spread to keep feeding an extended net of interests addressed to a strong universal product.

Social and personal relationships are the strength of the net. They may be found from the certificated farming at local levels to the extraction of the best beans, flavors and bouquets of the consumer demands.

For the explained reasons, the net potential is valuable and chain agents are aware of it. So, the toasting and grinding companies, we can notice their experiences in exporting *commodity beans* – that, therefore, are inserted into an international market relationship net - assure they control knowledge and channels which are surely the necessary basis for sustaining their growth and expansion process.

It is also indispensable to retake the innovating entrepreneur Schumpeterian command dimension that is based on management elements expressed by a high degree of determination, process control and strong decision-making power.

Considering those aspects, the interview and questionnaire results greatly contribute to this discussion, since if based on those categories it is possible to analyze the company concrete experience arrangements seeking to identify their strategies and challenges addressed to performance and internationalization effort consolidation.

One of the main study assertions is that, in general, company finds its opportunity to start exporting under the relationship net established during the green bean commodity export process, which already follows the quality differentiation concept. To some companies such restructuring represents a vertical process towards accomplishing quality through a differentiated product (*non-commodity*). Others have their starting point associated to commodity large international trade structure and differ from the aforementioned since they do not come from an exporting path, but reacted to opportunities arising from the net interests. And there are those companies that have to build channels through “pro-active” market attitudes.

4.2. Targeted joint policies

The discussions herein are developed through considering opportunities of new processes meant to insert Brazil into the international market under two perspectives: both directed to add value, but at the same time different from each other concerning complexity and interrelations necessary for them to be feasible. We may say the commercial opening characterized by efforts towards exporting higher added value products started in the second half of the 80s, but it was still linked to searching for industrial complementarity intermediate goods.

The most recent version of the aforementioned model explores some strict possibilities addressed to insertion into international market seeking a new finished product-consumer market relationship and based on different quality attributes and transmitting such values to a highly segmented market.

The main characteristic of this phase is a commercial relationship where product valorization services superpose the traded good quality. In this case the product home country is one of the valuable attributes of the product image. Thus, the Brazilian

export policy was structured in a way to develop high investment actions to building a "Marca Brasil" ("*Brazil Brand*").

All sectors exploring opportunities for redefining the Brazilian exporting benchmark join in efforts to building such brand. We also noticed that those initiatives are disseminated in all sectors of the Brazilian public administration. Such interaction happens not just at an inter-sector level, but also at private level.

Knowledge building and material addressed to link the "Made in Brazil" dimension to the various potentially exportable products and services have drawn great attention and consolidation of an exporting policy strategy is already in the works. The institutional milestone fits into the Brazilian Foreign Relations Ministry and Foreign Industry and Commerce Ministry aims of reviewing the country insertion into the international market. To help concrete actions be more agile, it was created the Agência de Promoção de Exportações (APEX) (*Export Fostering Agency*) to work as an operational instrument. APEX³ is a result of the export policy modern concept based on the wide concept of commercial fostering which can be summarized as follows: "To prepare company for exporting, to adequate the product for exporting and to support the company in foreign countries." (APEX, 2003).

The model, that seeks the identification of a remarkable national image that could translate the Brazilian product quality and competence, developed unifying and convergent actions designed to work as market strategies and marketing support to small and medium companies. The country image building was based on several favorable attributes that could contribute towards drawing the consumer attention.

The process sought to adequate the foreign consumer awareness of Brazil positive values for the Brand to deliver the idea that quality is connect to creative capacity, besides cultural and natural resource diversity using them for product versatility and

³ APEX was created through a presidential act by CAMEX (*Foreign Commerce Chamber*) in 1997, and is equivalent to the Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE) (*Brazilian Micro and Small Company Support Service*), with the aim of supporting the implementation of a policy addressed to foster commercial exports. (see APEX, 2003 and SEBRAE, 2002)

excellence. But, in the business development, it mainly sought to highlight the “Brazilian soul” in order to reach a result that can be celebrated by every part involved in the process.⁴

Associating the product to the country is especially valuable for expressing the institutional-political legitimacy based on a strong public-private inter-sector relationship. Thus, catalyzing interests that stimulate and foster unit and convergence, and are also a highly valuable component to rationalize and optimize the political-administrative procedures of international commerce relationship.

We could say that before the possibility of associating products to a general environment arisen from the Brazilian product *marketing* policy, company *upgrade* is a significant factor of competitive advantage. Sector policies and company strategies make use of the “Marca Brasil” identity providing a mutual strengthening basis able to redefine the visibility and valorization milestone in the international market.

Coffee was one of the first products to assimilate the brand building strategies (Bacha, 1992). In 1989, the use of ABIC seal certifying coffee purity was a new path starting point that also aggregates other qualifications bringing national and international advantages. *ganham destaque nacional e internacional*. In 1992, the Café do Cerrado brand launch the seal identifying coffee specific origin valorizing a specific producer region – nowadays there are 14 regions identified by these stamps. Concerning a market and marketing determined performance, seals and brand are important to the extent they are the focus of a comprehensive sector policy. The “Cafés do Brasil” (*Brazilian Coffees*) program is supported by the Funcafé (*coffee economy protection fund*) financial resources. This program concentrates its action on coffee segmentation into different categories of quality and price under the “Cafés do Brasil” (*Brazilian Coffees*) brand marketing that is considered an excellence identity in the international *front*.

⁴ Brazil essence drawn out from **soccer**: strength, determination, consistence, will for winning and creativity; large diversity: natural resources, races, products, biodiversity, product versatility to adequate to different international needs; excellence pattern: responsibility, business commitment maintaining advantages for every part involved in the process (see APEX, 2003: 91).

The market supporting institutional policy that discloses the export policy innovative nature is a special covering for the segments using this umbrella. From company an entrepreneurial perspective there still are few segments and companies joining in this movement. Several authors agree that results arising from export inducing instruments depend on an assimilation period of nearly five years on the part of companies (Moreira e Santos, 2001).

Together with other sector associations, APEX has coordinated most of these movement actions in the last four years, what has been decisive to incorporate new companies, diversify markets and renew the mechanisms for business transaction optimization and sustainability.

Innovating and modern policy proposals for export support and promotion addressed to a daring insertion of the country high specific value finished goods include from different types of food, with emphasis to special coffee, to fashionable textiles, clothing, footwear and jewelry.

Such policy structured by the MDIC (*Industry and Commerce Development Ministry*) was consolidated into the Plano Plurianual 2000/03 (PPA) (*multi-annual Plan*) as one of the directives considered to be an important management milestone in that period, known as "Avança Brasil" (*Go forward Brazil*). This program comprised several policy activities and instruments addressed to improved competitiveness. Among them we highlight the one known as "Brasil Classe Mundial" (*world class Brazil*).

This area works were also innovators since they fostered a close interrelation between company agents and policy development agents (Coutinho, 2002). The Competitiveness Forums improved dialogue between Productive Sectors, Government and National Congress allowing friendly inter-company negotiations beneficial to the whole chain interests, thus being able to defining agreements towards industry and foreign trade policies. To accomplish international insertion, it is necessary to combine company competitiveness concepts, based on cost and price, with the wider and more complex qualitative vision required for international insertion. It is indispensable that companies take into consideration chain bottlenecks and opportunities in order to determine productivity, quality, innovation and marketing instrument goals (Brasil, 2002).

This policy implementation was not homogenous in all segments, since it depended on the production chain characteristics, type of product, company size and dispersion, and mainly its opportunities and conditions concerning adequacy to international relationship (Baumann, 2002).

Regarding the coffee sector, such policy was welcomed by the whole net, especially by the toasted and ground coffee industry which had already taken some entrepreneurial insertion initiatives through higher added value products. The movement includes two company groups experiencing different stages of development: companies traditionally exporting this *commodity*, therefore with larger knowledge and international market relationship chain, and companies aware that learning about international trade is very important and can make the difference to their growing process.

The Programa Setorial Integrado (PSI) (*Integrated Sector Program*), addressed to changing the export schedule quality of some production chain with higher added value products, was structured to support the latter group under the Exportation Fostering Policy involving the MDIC, the APEX/SEBRAE System and entrepreneurial organizations.

4.3. Specific project

PSI was agreed between APEX e the Sindicato das Indústrias de Café de São Paulo (Sindicafé) (*São Paulo Coffee Industry Labor Union*) which acts in behalf of the Brazilian toasting industry. The first phase of the toasted and ground coffee PSI was established between 2002 and 2004 with a R\$ 11.5 million budget divided in equal shares by the government and the private sector. Its objective was to increase this segment exports to US\$ 29 million until 2004 and to US\$ 100 million in 2006.

This project aims at supporting industry in order to make use of the segment potential and market trend opportunities, based on the as following premises:

a) The Brazilian industrialized coffee exporting potential is underused, taking into consideration that the country has a clear comparative underused advantage over international competitors;

b) It is the adequate moment to show the Brazilian coffee quality to international consumers, overcoming its unfavorable position if compared to foreign countries;

c) The entrepreneurial sector and the Brazilian export added value policy have mutual beneficial interests aimed at providing the Brazilian Coffee adequacy to the taste of the final consumer.

Available to every company in the country, the PSI first phase includes 22 companies - 20 small, 1 medium and 1 large – and estimates the inclusion of other 38 as a goal for the an immediate goal.

The program will develop four actions: a) providing the continuity of data and information systematization associated to an interaction and sympathy arousing process addressed to the production sector, creating a strategy exchange environment to provide the toasted and ground coffee insertion qualitative change of the export list and promoting discussions to assess and establish the dimensions of private and government challenges; b) providing the specification of the PSI technical addressed to the foreign market insertion strategy and intern communication and disclosure; c) intensifying the Brazilian coffee disclosure and marketing in the international market; d) strengthening marketing actions for commercial promotion – that uses around 70% of the agreement budget.

4.4. The entrepreneurial attitude

Institutional support is a mutual basis to which companies add strategies determine by their productive and organizational particular conditions. Thus, the several processes aimed to establish connection with the international market show individual experiences with differences and similarities concerning the motivations for exporting, and the entrepreneur and company characteristics.

Even if we go deep into discussing the motivations for exporting, we will find it very difficult to determine the reason why, for example, among the 100 largest Brazilian companies operating in this sector only 22 chose the PSI support as far.

Historically, the exporter decision-making process and success are linked to some universal characteristics such as company size and quality, standardization level and product competitiveness. There are evidences that exporting barriers vary according to exporting time, industry and target-market. Nevertheless, there are contradictions, mainly concerning the differentiated products not needing a scale conditions.

In fact the choice of exporting is based on objective conditions established by market universal parameters which companies have already met or are able to meet, mainly when we take into consideration a stimulating environment with open channels that facilitate the existence of effective homogenous conditions adequate to start an exporting process.⁵

Nevertheless, there is a specific divider that separates companies under the same conditions, or even under less complete conditions, which take risks through innovating attitudes to be inserted in the international market. Such *performance* is explained by the manager characteristics. In general, internalization strength is found in the key-individuals that are organization leaders and remarkable for their daring and innovating entrepreneurial actions.

The entrepreneur that builds the toasted and ground coffee insertion in the international market has the aforementioned profile and belongs in a leadership forefront group that responds to the government proposal of adding value to exports and has an active role in the export policy designing and condition structuring, thus integrating and participating in this movement actions.

The need of organizing a specific group comprising company leaders committed with an additional and systematic effort to defend a more comprehensive and collective interest was already explicitly stated in the export fostering policy.

⁵ A specific explanation for the Brazilian situation would be the fact that companies interviewed in previous studies and that were frequently impelled by reactive motives, start exporting at the end of the 60s and beginning of 70s while the country experienced an export *boom* and the generous government incentives allocation stimulated exports. However, companies interviewed in later studies had less access to government resources, less opportunities, as well as had probably to face greater difficulties to start exporting. Their reasons to exporting were probably more proactive, or else they would not have started such activity in a less favorable environment (Rocha, 2002b).

We recognize such task is not simple. Concerning PSI it counted on a strong interaction joining inter and intra-ministry structures to private company structures to establish conditions for activities of a first group of companies interested in adding value to Marca Brazil.

This experience strengthened and extended the movement in which companies progress through individual efforts and initiatives. These companies, independently from their size, have characteristics in common: a daring independent trading and strategies based on cumulative experience. Simultaneously, those companies have to deal with complex fiscal-sanitary rules and regulations that govern international transactions, as well as count on connections and relationships to support their strategies for insertion in the foreign market.

5. Company Strategic Choices towards exports

The last point in our discussion brings about elements of a more analytical discussion on the current phase of the export movement problems and barriers, and organizes the main strategies related to qualitative interviews with several companies and foreseen in the methodology as complements to the fulfilled form.

Through a more dynamic perspective, the results permit a synthesis of problems involved in the studied toasted and ground coffee industry exporting efforts.

According to the experiences reported by several companies that have already engaged in the movement, the great problem to be faced is accessibility to trading channels that, due to the characteristics of the differentiated product, require peculiar interaction connections between supplier, dealer and final consumer. It means we should take into consideration not only the low bargain power concerning the dealers, but also the importance of commercialization services and marketing strategies, in order to insert the products into the international market.

Based on some current export initiatives already carried out or in the works, we can mention choices for inserting differentiated products into the foreign market. The study summarized some strategy formats which were based on links arising from the

commodity coffee trading traditional channel connections (inherited *networking*), as follows:

- a) *Commodity* coffee development in special lots to directly meet the demands of some foreign roasting industries, independently of being or not coordinated relationships (quality beans, BSC, Illy, Caccor types, producer international trading strategies are not included herein);
- b) Partnership with international roasting industries that will be responsible for product industrialization and trading in the final;
- c) Project for roasting industry installation in the foreign market, mainly in China and Japan;
- d) Project for brand buying in several markets, mainly in Greece, Italy and Egypt using the same strategies used by multinational industries, such as Sara Lee and Kraft that joined in the Brazilian market purchasing several consolidated brands;
- e) Final pack roasted and ground coffee exports lacking a brand, so that dealers could add brand, *marketing* and distribution services;
- f) Final pack roasted and ground coffee exports adequate to the importer market (can, weight, specification), having its own brand and addressed to supermarket nets, mainly in the USA. For example, da Santa Clara with products in the Wall Mart net and Coimex in the Ahold net;
- g) Establishment of cafeterias in noble areas of *shopping* and similar international market places through *joint-venture* with foreign country entrepreneurs;
- h) Installation of express coffee machines in the international market associating Marca Brasil to company brands and strengthening strategies to reach the final consumer directly;
- i) Opening of Brazilian trading companies in foreign countries for the direct distribution channels feasibility in the retail trade (supermarkets, restaurants, convenience shops and others) as the first step development for high specialized trading agents in foreign markets;
- j) Implantation of roasting industries in Russia, China and Japan – such strategies demanded that BNDES (*Bank for the Development of Southern Brazil*) create an international policy for financing the internationalization of Brazilian companies;

- k) International negotiations, following the example of hotel, restaurant and differentiated product store nets as a specific disclosure strategy among the consumer segments which are considered to be important opinion formers;
- l) Optimization of international events addressed to promote products through joining companies round Marca Brasil. This strategy strengthens and rationalizes marketing policy resources improving the *stands* exhibit and product promotion, thus increasing the Brazilian product visibility and attractiveness;
- m) Association of the product brand to Marca Brasil to capitalize its valorization when distributing individualized products in the international market;
- n) Maintenance of exclusive and non-exclusive agents in foreign countries.

6. Conclusions

In general, the Brazilian exporter counts on some traditional structures consolidated in the last decades. Historically, *commodity* coffee counted on the dealers, agents that financed and deliver big coffee stocks, acting as a bridge between exporters and importers, thus efficiently replacing product valorization and good trading relationship.

Since the 70s, the Brazilian industry exports has made efforts to modernize trading channels and give special attention to dealers through creating *trading companies* and export consortiums. However, such structures were not capable of innovating market relationships and creating new business, for they just reproduced company export department traditional actions. They narrowed their relationship with suppliers, but they did not widen management, logistics and information system so they could have a better position in the foreign market (Schmidt, 1982).

All the used channels and strategies noticed in the studied companies express the creativity and flexibility expected as a response from the segment to the new market complexity. The required innovation processes find the competitiveness determinants in the scale, but also show the need of finding solutions to meet the optimization of multiple dimensions of supply demands. This requires companies to make extra efforts to go beyond production management, showing that modern and complex marketing management is more important than production techniques.

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Webites:

ABECAFE - Associação dos Exportadores de Café, <http://www.abecafe.com.br>

APEX - Agência de Promoção de Exportações no Brasil, <http://www.apexbrasil.com.br>

CACCER - Conselho das Associações de Cafeicultores do Cerrado,
<http://www.cafedocerrado.com.br>

Cafés do Brasil, <http://www.cafesdobrasil.com.br>

CECAFE - Conselho de Exportadores de Café do Brasil, <http://www.cecafe.com.br>

EMBRAPA Café, <http://www22.sede.embrapa.br/cafe/>

SCA – Associação Brasileira de Cafés Especiais, <http://www.bsca.com.br>

Anex of Tables

Table 1

NUMBER OF LOCAL UNITS, EMPLOYEES AND DISTRIBUTION OF INDUSTRIAL TRANSFORMATION VALUE PERCENTAGE (VTI) AND TOASTED AND GROUND COFFEE VTI/LOCAL UNITS, ACCORDING TO THE BRAZILIAN FEDERAL UNITS SEGUNDO - BRASIL - 1996 AND 2001

FEDERAL UNITS	LOCAL UNITS		EMPLOYEES		VTI% DISTRIBUTION		VTI/LOCAL UNITS	
	1996	2001	1996	2001	1996	2001	1996	2001
São Paulo	58	46	3.550	3.270	42	47	3.248.569	6.066.269
Minas Gerias	28	29	1.008	1.910	17	11	2.633.224	2.255.530
Bahia	20	19	842	798	4	2	991.008	609.797
Paraná	21	15	1.097	980	10	10	2.033.308	4.073.777
Rio de Janeiro	12	12	854	868	4	3	1.607.329	1.572.792
Goiás	4	11	198	398	0	1	554.272	653.901
Pernambuco	7	6	852	1.087	1	4	930.879	3.852.002
Maranhão	7	5	134	263	0	1	249.661	1.573.914
Distrito Federal	3	5	185	193	1	1	2.198.013	1.509.827
Rio Grande do Sul	6	5	205	96	2	1	1.301.384	928.339
Ceará	11	4	453	728	3	5	1.121.295	7.008.945
Santa Catarina	6	4	327	114	2	0	1.756.058	326.429
Rio Grande do Norte	6	3	159	355	1	4	800.146	7.807.201
Paraíba	4	3	563	559	4	3	4.317.409	6.616.237
Espírito Santo	2	3	(X)	155	(X)	1	(X)	1.390.457
Amazonas	3	3	199	181	1	0	1.473.242	880.115
Mato Grosso do Sul	3	2	93	(X)	0	(X)	639.293	(X)
Mato Grosso	1	2	(X)	(X)	(X)	(X)	(X)	(X)
Rondônia	3	2	103	(X)	1	(X)	794.019	(X)
Sergipe	4	2	226	(X)	3	(X)	3.191.976	(X)
Pará	4	1	101	(X)	1	(X)	904.741	(X)
Piauí	3	1	68	(X)	-	(X)	0	(X)
Tocantins	-	1	(X)	(X)	(X)	(X)	(X)	(X)
Alagoas	2	-	(X)	-	(X)	-	(X)	-
BRASIL	218	184	11.441	12.844	100	100	1.997.811	3.222.551

Raw data source: IBGE - Investigação Anual da Indústria (*Industry Yearly Investigation*)

(-) Numeric data equals zero, not resulting from making a round sum.

Table 2

NUMBER OF EMPLOYEES AND TOASTED AND GROUND COFFEE COMPANIES ACCORDING TO EMPLOYEE GROUPS - BRAZIL - 1996 E 2001

EMPLOYEE GROUPS	EMPLOYEES		COMPANIES	
	1996	2001	1996	2001
0	0	0	118	109
Até 4	1.195	1.050	570	504
De 5 a 9	1.466	1.367	218	210
De 10 a 19	1.968	1.644	142	120
De 20 a 49	2.935	2.748	102	90
De 50 a 99	1.884	2.686	28	41
De 100 a 249	3.324	2.881	21	19
De 250 a 499	2.809	3.229	8	9
De 500 a 999	0	1.059	0	2
1000 or over	0	0	0	0
TOTAL	15.581	16.664	1.207	1.104

Raw data source: RAIS

Table 3

TOASTED AND GROUND COFFEE COMPANIES THAT ARE ABIC MEMBERS, BY THE NUMBER OF BRANDS IN THE MARKET, ACCORDING TO THE BRAZILIAN FEDERATION UNITS - BRASIL – 2002

FEDERATION UNITS	NUMBER OF TOASTED AND GROUND COFFEE BRANDS										TOTAL	
	1	2	3	4	5	6	7	8	9	10 e +		
Acre	-	1	-	-	-	-	-	-	-	-	-	1
Alagoas	-	3	-	-	-	-	-	-	-	-	-	3
Amazonas	1	1	-	-	-	-	-	-	-	-	-	2
Bahia	38	17	3	-	2	1	-	-	-	-	-	61
Ceará	3	3	1	-	-	-	-	-	-	-	-	7
Distrito Federal	1	1	1	-	-	-	-	-	-	-	-	3
Espírito Santo	5	8	6	1	1	-	-	-	-	-	-	21
Goiás	3	5	8	1	-	-	-	-	-	-	-	17
Maranhão	4	-	-	-	-	-	-	-	-	-	-	4
Minas Gerais	54	43	8	6	2	1	1	1	-	2	-	118
Mato Grosso do Sul	1	6	-	-	1	-	-	-	-	-	-	8
Mato Grosso	3	4	1	-	-	-	-	-	-	-	-	8
Pará	3	1	-	-	-	-	-	-	-	-	-	4
Paraíba	1	1	-	1	-	-	-	-	-	-	-	3
Pernambuco	3	1	-	-	1	1	-	-	-	-	-	6
Piauí	-	1	-	-	-	-	-	-	-	-	-	1
Paraná	6	16	7	2	1	-	1	1	1	-	-	35
Rio de Janeiro	9	9	6	1	-	1	1	-	-	-	-	27
Rio Grande do Norte	3	1	-	-	-	-	-	-	-	-	-	4
Rondônia	1	3	1	-	-	-	-	-	-	-	-	5
Rio Grande do Sul	2	3	2	1	-	-	-	-	-	-	-	8
Santa Catarina	2	6	3	-	1	-	1	-	-	-	-	13
Sergipe	-	1	-	-	-	-	-	-	-	-	-	1
São Paulo	40	50	15	7	4	3	2	1	1	1	-	124
Tocantins	-	1	-	-	-	-	-	-	-	-	-	1
TOTAL	183	186	62	20	13	7	6	3	2	3	-	485

Raw data source: Associação Brasileira das Indústrias de Café (ABIC) (*Coffee Industry Brazilian Association*)

Table 4

NUMBER, PRODUCTION AND PARTICIPATION OF THE 100 LARGEST TOASTED AND GROUND COFFEE COMPANIES IN THE DOMESTIC PRODUCTION, ACCORDING TO COMPANY SIZE -- BRAZIL – 2001/2002

COMPANY SIZE ⁽¹⁾	NUMBER OF COMPANIES	PRODUCTION (bags nov./01 to out./02)	PARTICIPATION IN THE DOMESTIC PRODUCTION (%)
Large	10	460.791	41,7
Medium	21	93.328	8,4
Small	34	71.519	6,5
Very small	35	35.924	3,3
TOTAL	100	661.562	59,9

Source: Associação Brasileira das Indústrias de Café (ABIC) (*Coffee Industry Brazilian Association*)

Company size classification was based on company participation in the Brazilian toasted and ground coffee total production, as follows: Large, company participation over 1%; Medium, company participation $\geq 0.309\% < 1\%$; Small, company participation $\geq 0.131\% < 0.309\%$; Very small, company participation $> 0\% < 0.131\%$. These parameters were based on the analysis of ABIC data on the 100 largest toasted and ground coffee domestic companies.

Table 5

- EXPORTED PRODUCT VALUE SELECTED FROM THE BRAZILIAN LIST AND PARTICIPATION PERCENTAGE IN RESPECTIVE TOTAL PRODUCT, ACCORDING TO COMPANY SIZE - 1995/96 AND 2000/01

COMPANY SIZE	PRODUCT	1995/96		2000/01	
		US\$	% in total Product	US\$	% in total Product
Large	Coffee	1.376.832	46,0	998.252	42,9
Medium		1.156.022	38,6	957.427	41,1
Small		462.998	15,4	372.896	16,0
Large	Soybeans (including ground)	1.394.494	79,0	3.717.758	82,2
Medium		250.903	14,2	198.539	4,4
Small		120.430	6,8	605.785	13,4
Large	Leather shoes	2.385.482	88,9	1.823.197	68,3
Medium		176.634	6,6	480.426	18,0
Small		121.025	4,5	364.260	13,7

iGuimarães (2002, p.486)