

# The Internationalization of Brazilian Design Firms What Do We Know?

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## Abstract

This study investigates the internationalization process of Brazilian brand design firms. The following research question inspired the study: What are the characteristics of the internationalization of these firms? The study, of a technical nature, is based on secondary sources, complemented by personal interviews with specialists. The results show that the design sector in Brazil is still very fragmented, and that internationalization of design firms is incipient.

## Introduction

According to the International Council of Societies of Industrial Design (ICSID, 2013), “design is a creative activity whose aim is to establish the multi-faceted qualities of objects, processes, services and their systems in whole life cycles.” Design is used in a large number of economic sectors. It includes a variety of projects, from architectural or interior design to product design or machinery design. The importance of design resides in its ability to add value to the product or brand, which is perceived by the consumer and fulfills a practical need (Kei, 2009). Design is thus a relevant means of building competitive advantage through differentiation. Brazilian companies are now starting to recognize the value of design in a competitive environment. Such awareness is driving the demand for design by companies seeking to become more competitive, both in the domestic and in the international markets (Mozota, Klöpsch and Costa, 2011; Valese, 2009).

This paper aimed to analyze the internationalization process of Brazilian brand design firms. One research question oriented the study: What are the characteristics of the internationalization of these firms? The study is based on secondary sources, complemented by personal interviews with two Brazilian entrepreneurs of the design sector, who have successfully internationalized their design firms.

## The Growth and Internationalization of Design

This section looks at the growth and internationalization of design firms from developed countries and emerging markets from the perspective of the extant literature. Initially, we present the state of design in the countries in which the activity is most developed. Then we discuss key aspects of the design industry in some of these countries, and the characteristics of the internationalization of their design firms.

Table 1 presents the ranking of those countries that most excelled in design, according to a study of the University of Cambridge, with the support of the Design Council of the United Kingdom. The ranking does not include two countries that also have a leadership in design, France and Italy, due to the lack of data available from these countries (Moultrie and Livesey, 2009).

Table 1 – Ranking of the Leading Countries in Design (Absolute Position)

Country	Overall ranking	Public investment in design	No. of design graduates	WIPO design registrations	WIPO trademarks registrations	No. of design firms	Turnover of the design services sector	Employment in the design services sector
United States	1	9	1	3	1	1	1	1
South Korea	2	1	2	2	3	7	n.a.	5
Japan	3	n.a.	3	1	2	8	4	4
United Kingdom	4	4	4	4	4	2	2	2
Canada	5	n.a.	5	6	5	3	3	3
Singapore	6	2	7	8	11	5	8	7
Sweden	7	5	8	7	7	4	5	8
H.Kong (China)	8	6	n.a.	5	6	9	9	6
Norway	9	3	10	11	8	10	10	10
Denmark	10	7	9	9	9	6	7	9
Finland	11	7	6	10	12	11	6	11
Iceland	12	n.a.	11	12	10	12	11	12

n.a. = not available

Source: Compiled from Moultrie and Livesey (2009)

## 2.1. Evolution and Internationalization of Design Agencies in Europe

Traditionally, design agencies, especially those in the countries of Continental Europe, are small design offices, serving a limited number of customers in the domestic market. In some cases, designers use a common brand and a shared office, but every designer in the office maintains a separate legal identity. Clients can be multinational, but the scope of action of these companies is limited to serving the domestic market, with brief forays outside. The main reason for this situation comes from the fact that these agencies do not have the scale to serve global clients (Olsson and Holm, 2009). Moreover, these agencies are not managed by professional managers; they are typically managed by the designer himself, who accumulates the functions of design creation and management. For this reason, entrepreneurs-designers often complain about the limited time available for their core activity, since administrative tasks tend to absorb a substantial portion of their time (Falay et al, 2007). However, in recent years, there is a growing concern among European design agencies about getting a larger scale of operations, expanding the scope of services offered, and hiring professional management.

The reasons for these changes are associated with internal and external industry factors. Internal factors include (i) the adoption of new technologies, such as CAD and prototyping of products, which allow some steps of the design process, previously dependent of skilled labor, to become faster and cheaper; (ii) changes in the way of looking at design, from simply assisting in the development of products and services, to strategic design. External factors are associated with market dynamics, which are leading design agencies to

internationalize, such as (i) the need to serve the subsidiaries of client companies that go international; and (ii) the growing use of offshoring by client companies, demanding that design agencies provide services in foreign locations, often in other continents (Falay et al, 2007; Hatami, 2013; Olsson and Holm, 2009). Thus, design agencies from European countries are undergoing a process of restructuring and professionalization, to serve multinational clients or even recently internationalized firms, adopting a client-following strategy.

Moreover, many European governments have given strong support to the development and internationalization of design firms, recognizing the strategic role of design in strengthening the country image. Thus, government agencies and private organizations have given support to these firms' internationalization efforts, not only fostering an international mindset, but also supporting the participation in international fairs, and developing campaigns to promote national design (Hytönen, 2003).

An interesting example is Italy, a country that is considered the birthplace of design. The association of the country image to design substantially increases the ability of Italian firms to penetrate foreign markets. A study by Canevaro et al. (2004) showed that design firms in Italy tend to be very small (often less than five employees). Smaller agencies are capable of serving clients sporadically in other European countries, but internationalization, although seen as a desirable path, is very difficult for these agencies, particularly when it comes to serve customers located on another continent. Only larger agencies with a broader portfolio of services are capable of serve customers on other continents. To effectively do so, they have to open offices abroad, since it is very difficult to deliver remote service in such circumstances. Overseas offices tend, however, to perform only a few activities, such as market research and marketing, leaving the more technical phases to be performed by the headquarters in Italy.

Another interesting case is Scandinavia. Scandinavian countries have traditionally excelled in product design. Sweden, Denmark, Finland and Norway are all ranked among the leading countries in design in the study of the University of Cambridge (Moultrie and Livesey, 2009). Similarly to other European countries, Scandinavian design agencies are still quite small in size (Olsson and Holm, 2009). The design sector is considered fragmented and not well organized, with few business and commercial associations and other representative groups (Power, Jansson, and Lorenzen, 2006). Nevertheless, Scandinavian design agencies are internationalizing to serve multinational companies that hire their services to meet the needs of their foreign subsidiaries (Olsson and Holm, 2009). In some cases, design agencies from Scandinavia have opened offices abroad. For example, a study by Ertman, Henningsson, and Rudén (2006) identified the existence of several Swedish design companies with small branches in Japan.

The United Kingdom differs from most European countries in that the country has a number of very large design agencies (although it also has a substantial number of smaller-sized agencies). The leading U.K. design firm, for example, has more than 500 employees. A Design Council (2010a) survey showed that design firms considered internationalization as an imperative and not as a strategic option. Leading U.K. design firms went international by opening offices or acquiring overseas branches.

## **2.2. Evolution and Internationalization of Design Agencies in the United States**

The United States leads in almost all indicators of design excellence: the country ranks first in number of graduates in design, in trademark registration, in number of design agencies, in sales of the design services sector, and in number of employees in the sector (Moultrie and Livesey, 2009).

According to Vanchan's (2006) study, the U.S. design sector is formed mostly by small enterprises. In spite of this, the 1990s and the early 2000s saw a process of mergers and acquisitions (M&A), which led to the formation of large design and communications conglomerates, encompassing advertising and promotion agencies and design offices specialized in several types of design services. This process permitted these groups to increase the scope and scale of their operations, integrating design and branding to competencies in communications and marketing. The author also observed that the sector is geographically concentrated in a few U.S. states, following the spatial distribution of manufacturing firms in the country.

The importance of design in the American economy is so great that, in 2003, it was estimated that exports of design services accounted for 15% of all U.S. exports of professional, technical and business services (Vanchan, 2006). In 2008, imports of design services had a share of 35% in expenses with hiring external design services (not performed within the companies themselves) and came mostly from the U.K., France and Italy (MacPherson and Vanchan, 2010). Nevertheless, Vanchan's study showed that U.S. design firms did not consider exporting important in terms of growth and success. This result is explained largely by the dynamism of the U.S. market, its size, and the substantial opportunities there available. Accordingly, M&A were largely responsible for major changes in large firms' structure. This large conglomerates are organized into multiple business units with a large degree of autonomy and different business models within each unit (Miozzo et al, 2012).

### **2.3 Evolution and Internationalization of Design Agencies in Asia**

The literature describes two recent cases of development of the design sector in Asiatic countries: South Korea and China.

South Korea chose design as a priority goal for economic development in the coming decades (Sung, Song, Park, and Chung, 2007). The country has already reached a leading world position in design, according to the University of Cambridge study; it ranks first in public investment in design, second in number of graduates in design, second in design patents, and third in trademark registrations. The structure of design activities in South Korea differs from European firms, with a large proportion of design being performed by the in-house departments of *chaebol* firms. Independent design agencies also establish long-lasting relationship ties with these large conglomerates (Chung, 1998; Design Council, 2010b). Therefore, South Korea exports mainly design built into the product, rather than design services.

China has also promoted design as a key priority for economic development. China's government efforts to promote design date back to the 1980s, when major reforms changed the country's economic path (Yali, 2012). Yet China has not yet reached an autonomous position in design; most high-quality design is still imported. Chinese design firms follow the typical pattern of most countries in the world: they are small or micro enterprises. Han (2012) suggests that these firms typically have a short life, with very limited ability to retain talented employees. On the other side, larger design firms typically hire large Western counterparts to develop their projects in China, serving the Chinese government or large Chinese firms (Yali, 2012). Finally, a very large number of manufacturing firms in China are outsourcing operations (of Western firms), and just use designs and specifications defined abroad. This situation explains why China is the largest exporter of design products, with one third of the world exports, if included exports from Hong Kong (Unctad, 2010), but has not reached yet a leading position in design. To improve the country's position in terms of design, the Chinese government has recently invited foreign design firms to establish branches in the country.

### 3. Evolution and Internationalization of Design Firms in Brazil

This section presents the evolution and internationalization of design firms. It is based on secondary sources, such as articles in business magazines and newspapers, company sites in the internet, general information collected in the internet, and personal interviews with three entrepreneurs from the industry.

#### 3.1. Historical Background

The design agency format was pioneered in Brazil, in 1959, with the creation of FormInform, by Alexandre Wollner and partners. Wollner, newly arrived from Germany where he studied at the School of Fashion, brought to Brazil the concept of functional aesthetics, in which the product must adapt to its function, and a working methodology which corresponded to that vision. Another design office that had an important role in the initial development of the sector in Brazil was created in 1964 by Cauduro Martino. However, these entrepreneurs were not successful exactly because they were pioneers. At the time, there was not a concern with design in the country; most companies simply copied products and models developed abroad.

The growing understanding among manufacturing firms and the various spheres of government of the importance of design to the competitiveness of the Brazilian economy has led to several initiatives that contributed to the development of the sector. Some government-led programs were created over the past decades to promote the development of design in Brazil. Among them, the most important were the Brazilian Design Program, from 1995 to 2012; and the Via Design Program, started in 2002 and still active. Concurrently, technical schools launched design courses to form technical people for the sector. The first university program was created in 1963, with the establishment of the Superior School of Industrial Design. By 2000, there were around 80 design schools in the country (Lima and Lima, 2002). In 2004 the Brazilian Association of Design Firms (Abedesign) was created aiming to “disseminate and enhance the Brazilian design, contributing to the continuous improvement of the industry, market growth and facilitating professional activities among design firms” (Abedesign, 2011).

Brazilian design firms are mainly micro and small-sized. The number of companies in the sector varies greatly depending on the source (from 300 to 2,700). A typical weakness is the lack of professional management, since most agencies were founded and are run by designers who rarely have adequate training to manage the company, a situation that is largely responsible for their short lives. Because creative activities are the core business entrepreneurs are primarily responsible for the creative activities, the operation of the company ends up relegated to a minor position, including its financial management.

#### 3.2. Internationalization Modes

As to internationalization, few firms are involved systematically in international activities, due to their small size, limited resources, and the lack of a country image of competence in design.

Among those that went international, there are three major modes of entry in international markets: (i) serving foreign subsidiaries of multinational firms established in Brazil; (ii) serving foreign firms that contact a Brazilian design agency; and (iii) partnerships with local agencies in foreign markets. Each of these alternative paths is briefly discussed.

*Serving a MNE network of subsidiaries* – The internationalization via subsidiaries of a multinational is one of the ways by which Brazilian design firms internationalize. As seen in the analysis of foreign agencies, it is also a common form of internationalization for European agencies, particularly the smaller ones. Typically, this process can be subdivided

into three steps: (i) *local*, that is, the Brazilian design firm is hired by a subsidiary of a multinational company operating in Brazil to develop a design project; (ii) *regional*, that is, once the design firm delivers a high-quality service, other subsidiaries of the MNE in the same region (Latin America) hire the design firm; and (iii) *global*, when the design firm becomes a service supplier to other subsidiaries of the MNE in other regions. It should be noted that this process can be interrupted at the regional level, and the firm does not become a global contractor to the MNE. The advantage of this mode of internationalization is the fact that the design firm does not need to invest much time in customer development. Furthermore, it is a low-risk process. However, the process is not as simple as it seems, and it has its difficulties and risks. First, the process can be costly and time consuming, since the approval of the project has to go through the structure of the MNE. This process may go back and forth with several adjustments being made in the different stages. In some cases, once changes are made in the project, the entire project approval process within the multinational has to restart. Second, every MNE has unique culture and structure, and the design firm must adjust to them. This means that the first step in the process of internationalization via subsidiaries of a multinational network is to know the culture, structure, routines and processes within the multinational.

*Direct contact by a foreign client* – In some cases, it is the foreign client who seeks the design firm, a process similar to the concept of “unsolicited orders” in the exports of manufactured goods. This is a type of passive internationalization, a result of the fact that the design firm has acquired an international reputation, or has been referred by other customers, a common situation in the design services sector, in which referrals are extremely important. Because Brazilian design firms are not internationally renowned, a relevant strategy in the internationalization process is to win international, or even national, awards. Participation in international fairs and exhibitions is another way to achieve international awareness.

*Partnerships with local design firms abroad* – This type of internationalization can occur in several ways. One is to work with a partner who offers complementary services, which can increase the scope of services offered. Partnerships of agencies offering similar services are less common. Partnerships agreements can be: formal or informal; for a project or on an ongoing basis; based on joint implementation or subcontracting. A partnership agreement may be a way to learn about a foreign country, as the design must be compatible with the culture and with local business practices. Thus, a local partner can greatly facilitate the entry into another country, serving as an “interpreter” of the culture. It is noteworthy that before establishing partnership agreements with foreign design agencies, the firm must do a lot of research and analyze whether the goals of both parties are aligned. If carefully designed and implemented, these partnerships can bring foreign market knowledge, improve technical expertise, and broaden the portfolio of services offered by a Brazilian design firm entering a foreign market.

### **2.3. Barriers to the Internationalization of Brazilian Design Firms**

The study identified several barriers that hinder Brazilian design firms from selling their services abroad. Depending on the mode of internationalization, such problems may have more or less weight.

*Size* – Most design agencies in Brazil are very small. They typically sell the services of specific designers, usually the owner (or owners) of the business. Production capacity is therefore quite limited, making it difficult to serve a large number of customers, or even a very large client operating in several sites. With regard to international activities, these companies can hardly do more than serve sporadic orders from multinational clients.

*Lack of professional management* – This is a problem for smaller companies in the design sector even in the developed countries. In general, it is the designer himself, the founder of the company, who runs the company, splitting his time between creative activities and management. Besides the natural preference for creative activities, the designer, in general, also has no specific training for the management of the company. So any growth process, and most of all internationalization, involves the professionalization of management, either by hiring professional executives, or by preparing the designer himself for managing the business.

*Inadequate administrative structure* – The design agency needs to develop an appropriate management structure to go international. Particularly, greater diversity of services offered may require a multidivisional structure, consisting of business units with a strong degree of autonomy, but at the same time able to perform the coordination of their activities within the firm, since they often serve the same customer. The diversity of service offerings may lead to the appearance of two roles in the organizational structure of the design agency: the person who carries out the coordination activities (a project manager) and the person who deals with the client (an account manager). These structures are necessary for companies that wish to effectively grow and expand internationally, whatever the entry mode chosen. For a successful internationalization, it is necessary to have a well-planned and implemented international strategy, as well as the ability to manage international projects, meet deadlines, and deliver quality services.

*Low price competitiveness* – Due to the appreciation of the Brazilian currency in recent years, design services performed in Brazil are not at this point price competitive abroad, thus making it difficult for international clients to justify hiring a Brazilian company, if they can use the services of agencies in their countries of origin at a lower price.

*Cultural distance* – The greater the perceived cultural differences (including differences in business practices), the more reluctant is the design firm to internationalize. Since design is a cultural product, cultural distance between the client and the design firm can generate more costs. The language can be a barrier, because the client briefing has to be understood in its entirety to avoid mistakes in project development. Remote communications also make it difficult to understand subtleties and details when one does not have full command of the language. Even when the design agency works with a multinational company in the Brazilian market, it must adapt to the internal processes and organizational culture of the client. Finally, the geographical distance itself may hinder the process due to time zone differences.

*Lack of international experience* – The lack of experience of Brazilian companies in foreign markets makes internationalization more difficult. When this process is already in progress, the experience gained by some design agencies ends up being transferred to other firms by means of joint projects, hiring employees who have worked in competitors' agencies, etc. Another way to acquire international experience occurs when the designer has studied or lived abroad, not only because of the language, but also due to the reduction of cultural distance. Moreover, international experience allows to develop relationships with designers and companies from other countries, facilitating internationalization.

*Bureaucracy and regulatory issues* – The international operation can generate a lot of bureaucratic complexity. Questions regarding what kind of contract to sign, how to bill an international client, which taxes are involved in this type of operation, among others, can change an international operation into a real nightmare for the design agency.

### 3. Final Considerations

This study sought to analyze the nature of the design industry, and the characteristics of design firms' internationalization processes.

Design has become an important engine of economic development, being perceived by industrialized countries as a means of building comparative advantage. In all the countries studied, micro and small-sized firms proliferate in the design sector. As a result, most design firms worldwide only operate in the domestic market, because of limitations of size and scope. Some countries, however, have large companies, especially the U.S., the U.K. and France. Larger firms tend to internationalize and this movement seems to be increasing, especially among European companies. As they internationalize, they bring serious competition to local firms.

Brazil is still in an initial stage of development of the design industry. The internationalization of design services occurs primarily through the access to subsidiaries of multinational companies located in Brazil. Partnership agreements with agencies of other countries are used only in a few cases. The study has not identified cases of opening of branches abroad, or acquisitions of local firms by Brazilian design firms in foreign countries. This study's results also suggest that most Brazilian design firms are far from ready to internationalize. Therefore, public policies, government-led programs, and private sector initiatives to promote and support the industry, both short and long termed, may be very relevant to foster its growth and internationalization.

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