



## THE BELEZA NATURAL CASE IN THE NORTH AMERICAN MARKET

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### ABSTRACT

**Objective:** This case proposes to put students in the role of Lídia Velasquez, majority partner and founder of Instituto Beleza Natural, amidst the challenges faced by the company during the COVID-19 pandemic, which forced the brand to rethink its entire international operation for its New York branch. **Method:** The data for the construction of the case were extracted from secondary sources such as scientific articles, journalistic material, consultancy reports, as well as information made available by the company and published on the internet. **Relevance / Originality:** This case proposed to promote an original discussion about a Brazilian company well-known within its niche, including internationally. During the discussion, students will be invited to reflect on factors that lead businesses to de-internationalize or maintain international operations. **Target Audience:** The case is indicated for undergraduate and graduate students of Business Administration, Marketing and International Business courses, who wish to address topics such as modes of entry into foreign markets, strategies for internationalization and de-internationalization of companies.

**Keywords:** International Business, Internationalization of Companies, De-Internationalization, Cosmetics Industry, Beauty Products.

## CASO DO BELEZA NATURAL NO MERCADO NORTE-AMERICANO

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### RESUMO

**Objetivo:** Este caso propôs-se a colocar os alunos do papel de Lídia Velasquez, sócia majoritária e fundadora do Instituto Beleza Natural, em meio aos desafios enfrentados pela empresa durante a pandemia de COVID-19, que fizeram com que a marca tivesse que repensar toda a sua operação internacional para a sua filial de Nova Iorque. **Método:** Os dados para a construção do caso foram extraídos de fontes secundárias como artigos científicos, material jornalístico, relatórios de consultoria, além de informações disponibilizadas pela empresa publicadas na internet. **Principais Resultados:** Identificar as melhores estratégias de internacionalização, os desafios enfrentados pelas empresas no mercado externo e as oportunidades de crescimento em setores específicos. **Relevância / Originalidade:** Este caso propôs-se a promover uma discussão inédita sobre uma empresa brasileira bem conhecida em seu nicho de atuação, mesmo internacionalmente. Durante a discussão, os alunos serão convidados a refletir sobre fatores que levam negócios a se desinternacionalizarem ou manterem operações internacionais. **Contribuições Teóricas / Metodológicas:** Uso de análise de modos de entrada no mercado externo no processo de internacionalização de empresas e estratégias de *marketing*. **Contribuições Sociais / para a Gestão:** O caso é indicado para alunos de graduação e pós-graduação dos cursos de Administração de Empresas, Marketing e Negócios Internacionais, que queiram tratar temas como modos de entrada em mercados externos, estratégias de internacionalização e desinternacionalização de empresas.

**Palavras-chave:** Negócios Internacionais, Internacionalização de Empresas, Desinternacionalização, Indústria de Cosméticos, Produtos de Beleza.

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## INTRODUCTION

In 2018, Lídia Velasquez, the main partner and founder of Instituto Beleza Natural, was looking at the first results of the newly opened branch of New York and thinking about whether the decision to expand internationally, defended by her 3 years ago, was in fact a successful move. The Beleza Natural was a group of beauty salons specialized in afro hair. Originally from the city of Rio de Janeiro, the brand had accumulated unquestionable success in Brazil through more than three decades of operations. With 38 institutes and kiosks present in different regions of the country, the greatest triumph of the brand was having a loyal clientele together with a growing portfolio of products and services in a tested business model. By that time, the company had internationalized its operations as a way of reaffirming its international presence by opening a concept store in the city of New York. With the COVID-19 pandemic in 2020, however, most of the brand's on-site operations in Brazil and abroad had to be interrupted, generating serious operational losses

for the group. This situation created Lídia and her partners the necessity to rethink all their operations. The New York concept store, which until that moment had never been profitable, was at the center of these discussions.

## 1. THE BELEZA NATURAL INSTITUTE

Long before becoming a beauty institute with dozens of stores and kiosks spread across Brazil, Beleza Natural was born from the idea of a beauty salon focused on the production and commercialization of cosmetics capable of helping its customers' self-esteem—almost always lower- and middle-class Black women with frizzy and curly hair (Figure 1). That kind of customer, who always had difficulty getting products from big brands at affordable prices, carried with themselves unique hair characteristics and hairstyles.

In addition to the proposal of an innovative product, Lídia Velasquez, Roberto Silva, and João Américo, the founding partners of the brand, also brought differences in the form of the service delivered by implementing at the institute a new way of serving its



Source: Beleza na Web (2023).

**Figure 1.** Natural beauty target audience.

customers, copying the process of the production line used by McDonald's, a company where Lídia worked years before. Thus, unlike what could be seen in traditional salons, at Beleza Natural, the client was attended by different employees, each one responsible for a specific process from separating the hair, applying the super formula, cutting, washing, and finishing. In this way, through the specialization of job positions, Beleza Natural gained a lot in time of service, which allowed them to receive a greater number of customers every day. Furthermore, an internal training program allowed team members to move between different workstations, enabling adjustments to be made in the face of possible process bottlenecks or team absences.

The concept of Beleza Natural arose from Lídia Velasquez's dissatisfaction with the beauty products and services available in Brazil in the 1970s. By that time, Lídia no longer wanted to be forced to straighten her hair due to a social imposition. Beyond that, simply did not exist in the Brazilian cosmetics industry products specially developed for people with curly and frizzy hair. It was then that Lídia began a hairdressing course where she mixed hair products from different brands until getting at a new relaxing formula, which, if produced on a larger scale, would be able to serve a broad, but still little explored, market niche. At that time, it was estimated that frizzy and curly hair represented around 70% of the Brazilian market. Together with her husband and first business partner, João Américo, Lídia spent more than 10 years developing a formula capable of hydrating and serving the frizzy and curly hair necessities even before opening the first Beleza Natural salon (BBC, 2012).

It was then that in 1995 the first Beleza Natural salon was founded in the Muda region, a place located in the Tijuca neighborhood, north part of the city of Rio de Janeiro. The success was so big that in the first few weeks, there was not a single day that there was not a line at the door. As a result, Lídia knew that it would be necessary to invest in opening other branches to meet the demand of the city of Rio de Janeiro. As a solution, in the same year, two other branches were opened like the one in Figure 2: first in the neighborhood of Jacarepaguá, west of the city, and another in the nearby city of Duque de Caxias.

As the units grew and spread throughout the region, Lídia and her partners found themselves forced

to abandon the model of own stores to franchise the business. However, to maintain the quality of the service provided, Lídia had to invest in the inauguration of its own cosmetics factory called Cor Brasil in 2004—a place where all the products that would be used in the Beleza Natural salons would be developed and manufactured. This was an important step to ensure uniformity in the treatment results, in addition to more accessible values due to the gain of scale in the production. To this day, all products from the “super relaxing formula,” the flagship product launched by the company in the 1990s, to other daily styling products, are still manufactured at the Cor Brasil factory in Rio de Janeiro.

The year 2004 also marked the expansion of the brand outside the province of Rio de Janeiro, with the opening of a branch in Vitória, a province of Espírito Santo. That same year, the brand also arrived in the city of Niterói, in the Greater Rio region. But perhaps, the biggest turning point for Beleza Natural was in 2005 when it became part of Endeavor's entrepreneurship acceleration program—a company that would later be responsible for the scale-up of the fastest-growing companies in Brazil, such as Loft, Vtex, and Ebax. This experience was very important for the professionalization of the institute, helping the company in the expansion process to other Brazilian provinces. By that same year, Beleza Natural already had 350 employees that together were able to perform 16,000 hair services every month.

In 2011, another important step was taken by Beleza Natural by forming a partnership with the University of Brasília (UnB), for the research and development of new hair products. After around 2 years



Source: Folha de S.Paulo (2013).

**Figure 2.** Natural Beauty Institute.



of research in 2013, Beleza Natural launched one of its most successful lines, bn.CACHOS, as shown in Figure 3, initially sold only in the brand's own institutes. Until that moment, the brand was already a national reference in the care of frizzy and curly hair. In that same year, the GP Investments group acquired 33% of Beleza Natural shares and became part of the company's board of directors, which in return received an investment of BRL 70 million to finance the expansion plan of its branches throughout Brazil.

As of 2018, the brand's products, until then only offered through its institutes, reached a new level with the launch of Beleza Natural's own e-commerce, responsible for selling and shipping its products throughout Brazil. By September of that same year, Beleza Natural's domestic operations already had 33 branches and 11 kiosks (Figure 4)—the latter one intended only for selling products—spread across five provinces in Brazil: Rio de Janeiro, São Paulo, Minas Gerais, Bahia, and Espírito Santo. Beyond that, the group also counted with a factory in Rio de Janeiro that also served as a training and development center for the qualification of professionals.

## 2. BELEZA NATURAL'S FIRST INTERNATIONAL STEP

In 2015 during a meeting between the partners about new possibilities for expanding their business,

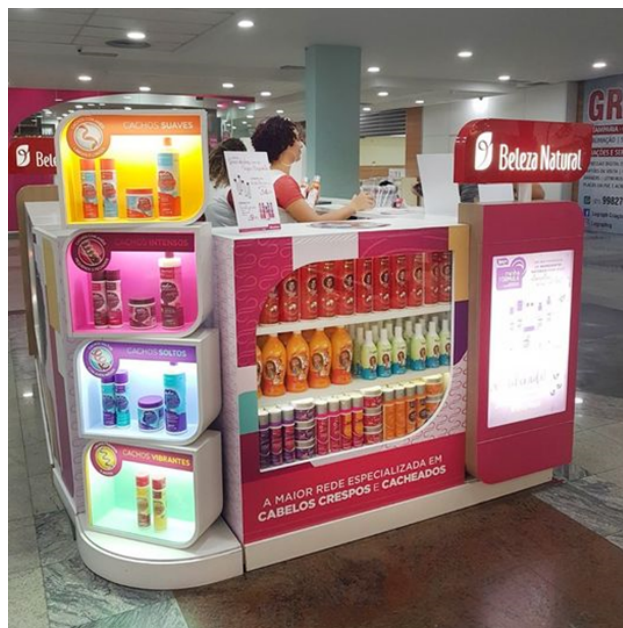
Lídia Velasquez proposed that after more than 20 years of successful operation in the Brazilian market, perhaps the time had come for them to be present internationally. Roberto and João, the brand's other founding partners, were reluctant to the idea because they believed it might be a too big step for the company. On the other hand, they believed that perhaps the best strategy for Beleza Natural would be to continue expanding to other Brazilian regions since the institute's actions had been working well until then. A big part of the success of the business was largely due to its proposal to serve a C and D class public with affordable prices, almost always living on the outskirts of large metropolises in the southeast and northeast of Brazil.

Although Lídia remained silent during the discussion, the idea of taking the brand to another country never left her mind. Until that moment with 38 institutes and kiosks open, the company had never seen such a promising moment. Revenues were positive, the portfolio of products and services offered was gradually increasing, and the national expansion strategy was progressing very well. However, given the concerns of her partners, Lídia knew that the internationalization of Beleza Natural should be gradual and well planned so that even in other countries, they could remain connected with their core values of treating frizzy and curly hair of Black women, at affordable prices for the lower-middle classes.



Source: Instituto Beleza Natural (2018).

**Figure 3.** Natural beauty products.



Source: Sou Méier (2019).

**Figure 4.** Natural beauty kiosk.

Another major concern of the partners was the loss of control over the quality standards established over decades of the brand's operations in Brazil. In the middle of the available entry mode options, Lídia knew that control over the operations at that moment was even more important than the investment itself. After almost 3 years of studying the viability of the business, in September 2018, Beleza Natural opened its first branch in New York, which can be seen in Figure 5, more precisely in the Harlem neighborhood, right in the beating heart of the city that never sleeps. According to Lídia, this time of maturation was essential for Beleza Natural to study the North American market consumer behavior and their consumption habits, in addition to developing a new line of hair products designed for Black North American women (Cosmetic Innovation, 2019). Lídia's idea was that the concept store opened in New York could serve as a springboard for the brand's expansion to other locations in the country and even in the world.

### 3. THE COSMETICS MARKET IN BRAZIL AND IN THE WORLD

According to data from Euromonitor International (*apud* Weber, 2020), the cosmetics sector is one of the fastest-growing industries in Brazil and in the world. In 2021, it already corresponded to 12% of the global

chemical industry's production. The Personal Hygiene, Perfumery, and Cosmetics sector, HPPC as it is called, can be divided into three subsectors: while the first of them is related to personal hygiene products such as soaps, deodorants, shaving products, and talcum powder, in the second, we have the perfumery part such as cologne and perfumes, in addition to cosmetics, which includes Beleza Natural with its products for hair treatment, coloring, fixatives, makeup, and creams—a segment that together should present an annual revenue of USD 103.8 billion worldwide in 2023, with an expected growth of 11.6% compared to the previous year (Weber, 2020).

According to the Brazilian Association of the Toiletries, Perfumery and Cosmetics Industry (ABIHPEC, 2019), Brazil is the fourth largest consumer market for cosmetics, with a 6.2% global share, behind only the United States (18.2%), China (12.7%), and Japan, with 7.7% of the cosmetics sales in the world. To get an idea of the regional representation of the Brazilian market, the country occupies first place in Latin America, accounting for 48% of the subcontinent's entire market share. In terms of general competition, although there are currently almost 2,800 companies producing cosmetics registered with the Brazilian Health Surveillance Agency (Anvisa), still the majority of the market is concentrated in the hands of five large groups: Natura & Co, O Boticário, Unilever, L'Oréal, and Colgate-Palmolive Co., which together hold 47.8% of the national market share.

According to the executive president of ABIHPEC, João Carlos Basílio,

the Brazilian industry also has a strong international presence, being responsible for exporting cosmetic products to approximately 165 countries around the world, with emphasis on the American market such as Argentina, Colombia, Mexico, Chile, Paraguay and the United States, which together represent 62.8% of Brazil's exports in the sector (*apud* ABIHPEC, 2019).

Among cosmetic and beauty products, hair products represent 4.6% of sales in the Brazilian market, with the main consumers being women. This public who has been each time more active in the job market is already responsible for 41% of the purchases (ABIHPEC, 2019).



Source: Instituto Beleza Natural (2019).

**Figure 5.** Natural Beauty Institute in New York.

As for the performance of the market itself, despite having suffered some losses until 2016, from 2017 onward, the cosmetics industry in Brazil began to grow again, showing that the sector has been recovering faster than the rest of the world economy after the COVID-19 crisis (Grand View Research, 2020). This growth has been accredited to the repositioning that the entire industry has been undergoing, by investing in digital engagement in addition to a new ethical positioning with products carrying more organic and natural elements. But, part of this transformation also involves change in the consumption habits of cosmetics customers, who are increasingly linking beauty with health and well-being, through the use of new ingredients and independent brands (Deodoro, 2021).

In the digital field, a separate battle has been fought between major brands such as L'Oréal, O Boticário, and Natura, which have increasingly invested in new features, such as virtual reality and digital showcases for product testing. According to Alexandre Machado, the managing partner of GS&Consult, in an interview with *Forbes* (Weber, 2020), even small companies that do not have the same availability of resources as these giants still manage to stand out in the digital environment. For him, the so-called "digital natives" have managed to create niches for specific audiences, many of whom are younger and are willing to adopt authorial or alternative brands. In this equation, these new digital marketing strategies based on social networks and influencers have been essential for these small brands to compete with the "big ones."

Another noteworthy is the area of fragrances, where Brazil is the second largest consumer market in this niche, generating USD 6.8 billion in revenue and behind only the USD 8.3 billion of North Americans. But whether for fragrances or hair products, one of the biggest differentiators found by today's brands has been precisely the possibility of investing in personalization. As pointed out by Kenya Watson, intelligence analyst at CB Insights consultancy (Weber, 2020), artificial intelligence devices installed on websites are already capable of collecting personal data and customer characteristics to recommend products formulated exclusively to meet their skin or hair specificities. It was something that until very recently unimaginable.

These products were created with the help of information and studies on how the climate, exercise routines and even DNA can affect hair. This is a trend that has been followed in the North American and European markets and promises to arrive in Brazil very soon.. In this sense, large cosmetics companies need to reinvent themselves to pay attention each time more to niche customers looking for exclusive and more natural solutions. Another major challenge for the industry is the unsustainable image that many companies in the sector have developed toward the market over the years. As already happened with the food industry, cosmetics consumers of today seek more botanical and biodegradable ingredients, and the presence of more sustainable processes, packaging, and ingredients.

Many of these changes can be seen primarily in developed markets such as the North American, which generates around USD 89.5 billion every year (ABIHPEC, 2019). Furthermore, the United States cosmetics industry is responsible for around 10% of the global exports, with emphasis on its hair products, which have a strong share in international markets such as Canada, Mexico, Australia, Europe, as well as Asian countries, such as Hong Kong and South Korea (Export Planning, 2022). Even with all the impacts of the pandemic, cosmetics was one of the only sectors of the industry that continued to grow, having accumulated sequential positive results over the last few years, such as 6% in 2021 (ABIHPEC, 2022).

#### **4. BELEZA NATURAL'S BIG DILEMMA IN FOREIGN MARKETS**

The COVID-19 pandemic from 2020 onward generated significant changes in human behavior and the way in which people consumed products and services. With a large part of its business model based on its beauty salons with in-person services, Beleza Natural like many other brands had to promote major changes if they wanted to remain active and operate in a society now marked by social isolation. The biggest challenge for Lídia and her team was precisely understanding ways to maintain the company's revenue while respecting social distancing rules imposed at that time. Even with its e-commerce channel running since 2018, the possibility of keeping the institutes closed was terrifying since they were responsible for

almost 90% of the group's revenue. Furthermore, the lack of a perspective on the normalization of the global health situation generated even greater pressure for adjustments in the business.

Despite the increase in the sales of online products, which almost doubled compared to 2019, the new revenue reality was still too small to maintain the group's structures. Lídia and her partners knew it was an opportunity to boost their online sales channel, but in addition to lower profit margins, products sold for the retail still faced productivity problems once the brand also had to stop in a first moment their activities in its Rio de Janeiro factory. Even when it was possible to retake the activities by complying with health safety protocols, the company's productivity remained significantly lower compared to that observed in previous years.

Furthermore, this new mode of virtual consumption posed big challenges for a market where experimenting the fragrances, textures, and products was a major decisive factor for purchasing. In addition to the differentiated face-to-face service offered at Beleza Natural salons, another problem they had was that a good part, around 70% of the sales of their products were made in the institutes themselves. Even though e-commerce is the most viable way for the company to continue serving its customers in this new moment, as they had concentrated their efforts over the last 27 years on physical points, the change in the group's mindset and operational structure would not come overnight. Along with this, the impossibility of demonstrating the correct way to apply the products generated dissatisfaction among many customers due to not achieving the expected results at home.

In facing the losses experienced by the company in 2020, Roberto and João knew that they needed to streamline the company's structure in order to reduce costs, in addition to investing in a more robust digital marketing strategy in order to leverage their

online sales platforms. Repositioning Beleza Natural in this new digital world would be much more difficult than imagined. The possibility of comparing the brand's products with competitors of aggressive pricing would require a lot of effort from all parties involved. The partners argued with Lídia that in order to invest in social networks, hire influencers, and follow the steps that were already being taken by other companies in the sector, they had to rethink the company's deficient structures which, for them, no longer made sense at that time.

Roberto had always been one of the biggest opponents of Lídia's concept store in New York, which despite being open since 2018 had never achieved the break, even due to local marketing issues. For him, more than 2 years without a return on investment was time to absorb the loss and withdraw from the North American market. João followed the same line and agreed that this was not a time for "adventures," and that the focus should be on the Brazilian market and the expansion of the company's digital operations. Abandoning her dream of seeing Beleza Natural on the international market, however, was not an easy decision for Lídia. Despite recognizing that the branch was not economically profitable, the presence in New York represented intangible attributes that contributed to the brand's concept.

Even so, Lídia was torn between the pressure she received from her partners, who showed the month's numbers arguing that maintaining a concept store in New York would represent a new round of employee layoffs here in Brazil, just a few weeks before Christmas. Despite her dream, Lídia knew her responsibility toward her team, generating a great personal dilemma. As she was the majority shareholder, still with 50% of the company, the decision was up to her. What remained to be answered was the big question that was hanging around, whether to de-internationalize or maintain Beleza Natural's position in the international market?

## 5. TEACHING NOTES

### 5.1. Learning objectives

The case aims to put the students in the role of Lídia Velasquez, the founding partner of the Beleza Natural Institute so that they can reflect on the main motivators that led to the internationalization of the brand to the North American market in 2018. However, with the pandemic and after suffering a few years of deficits in their international operations, the participants will still have to decide on whether to keep or demobilize the New York branch. At the end of the discussion, students are expected to be able to:

- discuss the different ways of entering foreign markets;
- identify the main environmental variables responsible for affecting international operations;
- understand the motivators that lead companies to de-internationalize.

### 5.2. Target audience

The case “Beleza Natural in the North American market” is recommended for undergraduate and graduate students of business administration, marketing, and international business, who want to discuss topics, such as foreign market entry modes, internationalization strategies, and de-internationalization of companies.

### 5.3. Sources of information

Data were collected between the months of May 2022 and July 2023, using secondary data sources such as scientific and journalistic articles, reports produced by consultancy firms and industry associations, as well as information available on the company websites and other internet sources.

### 5.4. Suggested teaching plan

#### 5.4.1. Assignment questions

1. How over the years has Beleza Natural expanded into the international market?
2. What were the main motivators for the brand to open a concept store in New York City?

3. How has the COVID-19 pandemic impacted Beleza Natural’s operations, and how could the brand adapt to this new moment?
4. If you were Lídia Velasquez facing the challenges and dilemmas presented in the case, what would be your decision on whether to maintain or shut down the brand’s international operations?

### 5.5. Teaching plan

This teaching plan assumes that there has been prior preparation by the students and a 2-h lesson, as proposed below:

- Beginning of the class and division of the class into small groups of four to five students (5 min);
- Discussion in small groups (30 min);
- Presentation of the case by the instructor (10 min);
- Plenary discussion (60 min);
- Closing (15 min).

### 5.6. Discussion and analysis plan

#### 5.6.1. Introduction

To warm up the discussion of the case, during the initial moments, it is suggested that the instructor ask the students to contribute to the contextualization of the case up to the moment when the internationalization of the brand took place. At this point, the following opening question could be presented to the group:

*(opening question) Given the trajectory of Beleza Natural presented in the case, what were the main motivators that led the company to internationalize?*

Possible answers to the opening question:

- The company was consolidated and in continuous expansion in Brazil;
- To become an internationalized brand and present its innovative product to the world;
- Strengthening the brand image in the domestic market;
- Diversify risks and increase the brand’s competitiveness in the cosmetics industry;
- Access to different suppliers and consumer trends.

As the group’s main contributions are made, the instructor can move to the first discussion question, as suggested.



### 5.6.2 Analysis

*(discussion question 1) What entry mode did the company adopt in its internationalization to the North American market? Comment on the advantages and disadvantages of the chosen mode.*

The decision to internationalize is very important for a company. In this sense, according to Cavusgil *et al.* (2014), three distinct categories of foreign market entry modes can be chosen by a company:

- Export: This refers to an entry strategy in which products or services are produced in one country (usually the company's home country) and sold or distributed to consumers in other countries;
- Contractual agreement: Any form of licensing or franchising in which the firm allows a foreign partner to use its intellectual property in exchange for the payment of royalties or other financial compensation;
- Direct investment: In this modality, the firm establishes a physical presence in the foreign market. Generally, the presence is established by equity investments and securing a shareholding in a factory, subsidiary, or other asset in the foreign market.

Each foreign market entry strategy has its own advantages and disadvantages. It is therefore up to the company's managers to choose the one that best suits their situation, taking into account factors such as the firm's objectives in terms of profitability and market share; the company's level of control over decisions, operations, and strategies; the level of risk the company is willing to take; the characteristics of services or products to be offered; the conditions of the foreign country, such as culture, economy, and infrastructure, among others; the nature and extent of competition between rivals; the availability and capacity of partners in the market; and the strategic importance of the target market.

Among the relevant factors to be considered, perhaps the most critical is the level of control the firm wishes to maintain over the operation. Figure 6 depicts the main relationships between control and other relevant factors in the choice of entry mode.

Exporting provides little control over operations because the company delegates considerable responsibility to foreign partners, such as distributors. This entry mode is the most common for companies that are

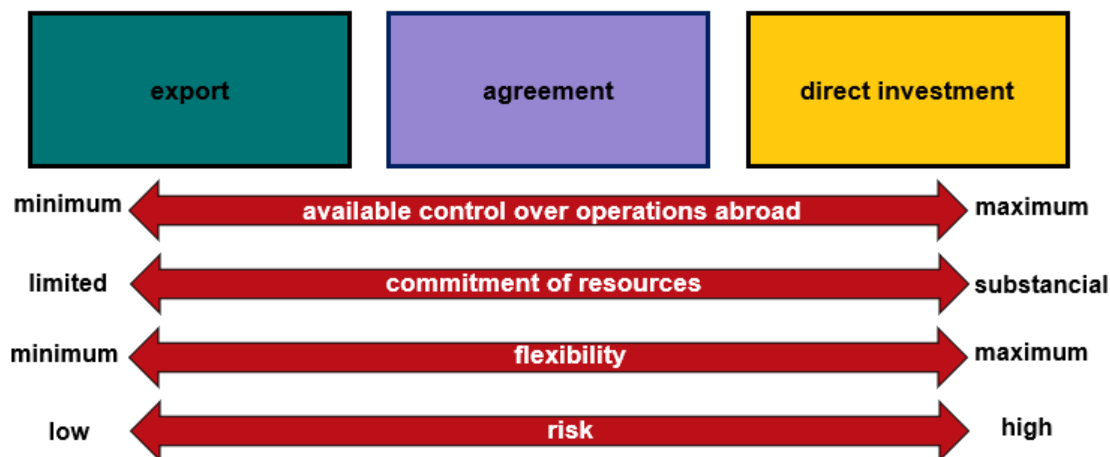
in the initial phase of the international operation, as it often happens slowly and progressively (Steinbruch *et al.*, 2016), and allows companies to withdraw immediately in the event of problems in the market to which they are exporting (Cavusgil *et al.*, 2014).

In direct exporting, the producing company is responsible for the entire sales process to the foreign market. In this mode, the company has more control over the negotiation and sale of the product, allowing the development of its own international distribution network and assessment over brand awareness in the international market. On the other hand, it is necessary for the company to have a department with knowledge of all the processes involved in exporting products abroad, such as the incidence of taxes on certain products and costumes legislation, therefore requiring some investment on the part of the company (Melsohn, 2006).

Within this same entry mode, there is also the cooperative or consortium exportation, where several companies from the same productive sector join forces with the aim of selling their products on the international market. This entry mode is capable of promoting the alliance of local small and medium companies, representing a lower cost of transactions. On the other hand, there can be an unbalance in terms of product sales due to the need to complement the productions of partner companies during exports, resulting in lower sales in the domestic market (Melsohn, 2006).

In indirect exporting, all marketing and transactions are carried out through an intermediary, which can be a commercial exporting company, a trading company, or an authorized economic operator (AEO). This intermediary allows market access to several clients and has lower risks and investments compared to direct exporting. However, this method does not allow the company to create a strategy for selling products abroad, once this is subject to the intermediary's capabilities. In addition, the company does not have direct contact with the foreign market, which can bring additional challenges in case of the necessity to start directly engaging with international clients (Melsohn, 2006).

The contractual agreement such as licensing and franchising allows a more moderated control on the part of the brand owner. At the same time, the risk of the investment is shared between the parties. Grow-



Source: adapted by the authors from Cavusgil *et al.* (2014).

**Figure 6.** Relevant factors in the choice of internationalization.

ing possibilities are also higher in comparison with direct investments (Garrido *et al.*, 2009).

In a contractual licensing relationship, the foreign company (licensor) provides to a domestic company (licensee) a patent, a good, technology, or commercial information so that the licensee can produce and sell the company's products in the market to which it intends to internationalize. In this relationship, a fee or royalty is paid to the licensor for each product produced and sold. Licensing is advantageous for companies that have knowledge of the foreign market in which they are investing and can also choose to have relationships with companies with a better technological background to make it easy to adapt their products to the interests of the local market. The disadvantages of this model can include damage to intellectual property since the licensee company does not have full control over the international operation. This happens once the licensor has knowledge of its production and at some point could become a competitor (Nunes & Steinbruch, 2019).

Franchising, on the other hand, is established by a contract between the franchisor abroad and the domestic company, where the franchisor provides a whole business model, means of production, marketing, and human resources to the franchisee abroad. In this mode, the franchisor provides the means for productive activities to be carried out, while the franchisee performs the functions in the foreign market. Among the advantages of this method, Nunes and Steinbruch (2019) highlight the rapid entry into the international market and

standardization of the production model. In terms of challenges, this mode can also present some disadvantages such as difficult control of production or process standards when the franchisor holds several franchises and control over the quality of services or products.

Finally, there is the direct investment, the entry mode adopted by Beleza Natural when it opened its own store in New York. The main characteristic of this option is greater control over its services abroad. In this context, the Institute wanted to maintain the same standards established in Brazil that made Beleza Natural one of the largest salons specialized in curly hair in the country.

On the other hand, according to Dias *et al.* (2014), this type of investment usually requires a lot of resources, especially because it involves constructing a new installation or acquiring existing operations in a foreign market, allowing the company to have total control over the project. This entry mode, on the other side, brings a bigger capacity to adapt operations to meet local market conditions. In an international acquisition, the local company becomes a subsidiary of the foreign company in the country. While in a merger, the operations and assets of the two companies merge to establish a new legal entity. To a similar degree, a greenfield incorporation such as the one observed by Beleza Natural involves higher risks and costs compared to other direct investments, such as acquisitions or joint ventures.

However, Azevedo (2020) suggests that given the company's complete involvement in internationaliza-

tion, foreign direct investment (FDI) would require a lot of resources, including human, financial, and managerial resources, which could be an obstacle for smaller companies or those with limited capital. Because direct investment involves higher risks and costs compared to other entry modes, companies can face challenges related to local regulations, cultural differences, or political instability, as well as taking longer to generate a return on what has been invested, since the company often needs to build brand awareness and establish a new customer base.

After covering the main points of the first part, the instructor can turn to the second part of the case analysis, as suggested in the discussion question.

*(discussion question 2) In the face of the conjunctural and operational difficulties presented in the case, what would be a possible strategy to be adopted by the protagonist from that moment on?*

At this point, one possible strategy to discuss with the students is the de-internationalization. De-internationalization refers to the total or partial withdrawal of a company's operations from foreign markets, either voluntarily or forced to reduce activities abroad. De-internationalization can also be understood as a response to adverse market conditions by managers (Azevedo, 2020). This move can involve various strategic decisions, such as reducing the company's operational objectives or shifting its focus to the domestic market.

For Benito and Welch (1997), the reasons that lead a company to de-internationalization include changes in market conditions, such as increased competition or a drop in demand for a company's products or services in a foreign market. Other reasons include strategic priorities to focus on main business activities or reducing risk by operating in a smaller number of markets. In addition, companies may de-internationalize due to internal factors, such as bad performance or financial difficulties. The reasons why companies de-internationalize are listed in Table 1.

Based on the table, the lack of international experience and knowledge, the increase in costs and significant losses, and the choice of a bad strategy end up being the main causes for the company to abandon the foreign market (Azevedo, 2020). Analyzing Beleza Natural's situation abroad in 2020, we observe the major challenges for maintaining the operation in another country to be the partners' inexperience in

the international market and the decision to go international was more related to the partner's aspirations of making Beleza Natural an international brand, rather than a lack of demand for an innovative cosmetics service. In this sense, Zen and Santos (2013) and Serão (2022) argue that commercial distance can be one of the main barriers that a company can face when internationalizing. Also, according to the authors, lack of market knowledge and legal and political barriers end up being the determining factors for a company's success in the international market.

Analyzing the case of Beleza Natural, while the New York subsidiary had its customers, the cultural difference between Brazil and the United States highlighted the lack of knowledge of Beleza Natural's target audience abroad. Unlike in Brazil, a stronger trend in the US market was the social barriers to wearing natural hair, linked to a new trend among millennials not to use chemical products on their body (Laborde, 2020). In the end, these factors contributed to Beleza Natural not achieving sufficient performance to make the operation self-sustaining. Maintaining operations in this market would end up requiring a great financial effort from the headquarters in Brazil, which in the medium to long term would add costs to the entire group.

In addition to the difficulties faced by the New York branch, Beleza Natural's partners were also having trouble boosting the sales of their products through e-commerce. Besides doing the entire service, most of the purchasing processes of the products were done in person. In order to revert this situation, it would be necessary to address strategies for scaling the company's digital sales, by adopting a stronger presence on social networks, using digital media to promote products and interact with customers through content marketing campaigns capable of generating identification with the user. In addition, the group needed to use data analysis tools to understand its customer's behaviors, identify trends, and adapt to their preferences, in the same way that other companies of the segment were already doing (Tippmann *et al.*, 2023).

Nevertheless, it was necessary to think of new strategies to increase the number of customers, as well as to maintain its current base. This meant adopting a positioning capable of meeting the demands of a younger public, engaged with social and environmental causes, who began to look for smaller brands that were more

**Table 1.** Reasons for de-internationalization.

Lack of international experience	Insufficient pre-internationalization analysis
	Early or very fast expansion into foreign markets
	Lack of knowledge
	Unsuitable choice of the target market
	Inadequate choice of the operating mode
	Product mismatch and/or insufficient adaptation to the market
	Diminishing value of previous experience and knowledge due to rapid changes in the target market
	No previous internal internationalization
	Insufficient attention to foreign markets
Strategic change	Focus on main markets
	Focus on main activities
	New managers with different strategic perspectives
	Increased internal demand
	Shortage of resources and qualified personnel
	Manufacturing capacity constraints
	Inadequate growth in the target market
Bad performance and increased costs	Change in the operating mode
	Increased production costs
	Increased transportation costs and tariffs
	Increased competition (in the country of origin or in the host country)
	Bad performance
Other reasons	Other reasons: (de) internationalization of related industries
	External shocks (including government interventions)

Source: Adapted by the authors from Azevedo (2020).

committed to the origin of the substances in their products. As a result, Beleza Natural's partners needed to make an effort to get adapted to the sustainability demands of today's consumers, without losing the quality and excellence that had conquered their current clients.

Finally, the COVID-19 pandemic imposed new difficulties in continuing with international operations due to the circulation restrictions imposed by the pandemic. A further complicating factor was the fact that most of Beleza Natural's business was concentrated on face-to-face activities, from serving customers in the salon to selling hair products, both in the institutes and kiosks.

## 6. CLOSING

At the end of the discussion, the instructor can close the case with a poll with the participants, lead-

ing them to put themselves once more in the protagonist's shoes, as suggested:

*(closing question) Among the alternatives of de-internationalizing or maintaining Beleza Natural's position in the international market, which one would you recommend to the company? Justify your answer.*

It is also up to the instructor to point out that there is no correct alternative.

### 6.1. Epilogue

In September 2018, Beleza Natural began its internationalization process by opening a branch of the institute in the district of Harlem, New York City, United States. The neighborhood was chosen for being an African American social and cultural center, the target audience of the Beleza Natural Institute. However, during the COVID-19 pandemic, the company's face-to-face ser-

vices were completely paralyzed due to social distancing restrictions. After the second wave of the pandemic, in September 2021, Beleza Natural had to completely shut down its activities in New York. After months of closure, however, with the end of the pandemic and the improvement of health conditions around the world, Beleza Natural reopened its old doors in New York City in 2023. It is now already possible to book beauty services through the salon's website in the United States.

## 6.2. Disclaimer

The authors declare that they do not have any conflict of interest to report, nor have received any financial assistance for the preparation of this material. Although the case uses the name of a real company, the dilemmas here presented have been created for educational purposes only and do not necessarily represent the views or opinions of the characters or the company involved.

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