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**Field Lab SME Competitiveness – EDUdigital's Internationalization Strategy**

**ANA CARLOTA CONCEIÇÃO**

**ANA MARTA MENDÃO BILELO**

**CAMILLA COSTANTINI MELCHIORRI**

**FRANCISCO COSTA NETO TAVARES GOMES**

**OMAR BEN AYED**

Work project carried out under the supervision of:

**João Pedro Pires dos Reis Muralha Delgado**

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## **Abstract**

EDUdigital is currently struggling with its internationalization process, generating profits and being established in the African market. The goal of this study is to analyze the global readiness of the firm and to evaluate new markets. The assessment was made through a Country Clustering and Ranking, followed by an in-depth analysis of the top five countries. A strategic plan was developed in three stages: definition of the international entry strategy, elaboration of a marketing strategic plan and computation of a financial forecast. The results prove the firm's preparedness to go global and that Sweden is the optimal target.

**Keywords:** Internationalization, Strategy, eLearning, LMS, Sweden

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## 1. INTERNAL AND EXTERNAL ANALYSES

### a) Company overview

#### i) Introduction to EDUdigital

EDUdigital (ED) is a Portuguese company that offers technological learning solutions, web platforms and digital content to universities, companies and other public or private organizations since 2008. ED's main goal is to provide customized training solutions that succeed in meeting the specific needs of the customers served. By combining value and quality, while ensuring cost optimization, the company has been able to build and maintain solid and long-lasting relationships with the clients.

ED focuses on the two distinct segments of training and education, and the products offered can be divided into six categories, namely *eLearning Platforms*, *eLearning Courses*, *Certified Training*, *Academic Management Software*, *Apps and Web Services*, and *Gamification* – as further described in **section 1.a.iii**.

The company has already started to expand to foreign markets, namely to Cape Verde, in 2018, and to Mozambique, in 2019, having only one client in Angola. The decision of expanding to international markets arose after realizing that, on the one hand, the Portuguese market had already a lot of competitors, who benefited from a first-mover advantage, and, on the other hand, potential clients faced high switching costs. The current internationalization process has been supported by the *Portugal2020* strategic program, which is an initiative that operates cooperatively between Portugal and the EU, helping companies to internationalize to other countries.

Furthermore, ED believes that opportunities for progress require constant transformation and innovation, and therefore the team strives to keep developing platforms and contents that answer to the latest market and customers' needs. Every time ED receives a new

project, the team carries out a thorough analysis and presents to the client a proposal in accordance with its expectations, desired delivery date, financial availability, and so on. The solutions are then designed and developed through technological, multimedia, and pedagogical elements, with the aim to be high quality and customized, but also aligned with the client's desired budget. After the implementation, customers are offered technical and pedagogical support throughout all the process.

Regarding ED's pricing scheme, the company's offer is aligned with the average market price. Thus, ED defines its pricing list by considering the number of hours that the employees allocate to each project, and then adding a margin that defines the business' profitability.

Finally, it is important to mention that the current pandemic is positively impacting the business, especially in the national market, where there has been an overload of proposals from a stream of new and existing clients. More than ever before, companies and education institutions felt the urgent need to adapt to more efficient and suitable technological solutions. For the purpose of answering to the increasing demand, the company started to hire more employees, namely coders and designers.

## **ii) Vision, Mission and Objectives**

An organization's vision and mission communicate the firm's identity and purpose, while providing a broad understanding of the overall company's direction. Having knowledge of these two statements allows a better understanding of the company's profile and offers criteria for the definition of future objectives.

The **vision** of a firm states which direction is going to be taken and what the firm wants to be in the future, identifying its long-term desired status (Carpenter and Sanders 2014). ED envisions the promotion of education through digital platforms, adapted to every customer's

content needs, while being a reference in eLearning, namely online training, implementation and consulting on eLearning platforms and development of digital solutions for the customer's content.

The **mission** statement declares what is the position of the firm in relation to the key organization stakeholders, in terms of fundamental values and purpose of the company (Carpenter and Sanders 2014). The **mission** of ED is to develop educational digital solutions and resources adapted to each customer, offering top quality products, while granting a remarkable and consistent customer service.

The key determinants that drive the efficiency of the vision and mission are the objectives set by the leaders, that provide a bridge between the vision and the strategy (Carpenter and Sanders 2014). ED defined its **main goals** as:

- Growth and retention of the customer base in national and international markets.
- Enhance the presence and gain market share in the countries where ED operates.
- Reinforcement of the firm's knowledge in terms of international strategy.
- Creation of three work positions, specifically project manager, designer, and programmer.
- Achieve efficiency by ensuring competitive price/quality with innovative products.
- Creation and expansion of the sales network, by creating partnerships in different business areas.
- Development of new innovative products in eLearning, by keeping up with the market tendencies in the industry.
- Consolidation of the partnership and representation of *Moodle* and *Totara*, by developing a program to measure and integrate with several other software.

### **iii) Product Portfolio**

As indicated above, ED's offer can be divided into six different segments, in order of importance in terms of sales.

#### **Certified Training**

ED offers training in different areas, such as Communication, Management, Sales and Marketing, Customer Service, HR, Financial, Languages, among others, thus being a training entity certified by *DGERT* in education. In fact, Certified Training is the service that generates most of the revenues for the company. The program grants a high-quality and complete preparation adapted to customers' needs, and including complete courses, scoring tests and final achievement certificates. The *DGERT* certificate is essential to build a quality image and to be a reference in the market. In addition, ED partners with *Cambridge English School*, offering certified English courses.

#### **eLearning Platforms**

The second best-selling product are eLearning Platforms, namely *LMS (Learning Management Systems)*, which are integrated systems that help members of an educational institution or companies with administering, tracking, and documenting the learning progress of their students or collaborators. In fact, *eLearning* refers to the use of digital resources to deliver electronic training and education through online contents. Since the channels are digital, the user is free to adapt the teaching to its needs and schedules. Therefore, the company has been partnering with *Totara* and *Moodle*, using the tools and servers provided by them to offer a *LMS* that fits the client's requirements. In this regard, the global eLearning market was valued at almost €168 (\$200) billion<sup>1</sup> in 2019 and is expected to reach the value of €313 (\$373) billion by 2026. More specifically, in 2019, *LMS* contributed with €15 (\$18) billion and is estimated

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<sup>1</sup> Throughout the report, a USD to Euro exchange rate of 0.84 was applied.

to double the value by 2026 (Statista 2020).

### **eLearning courses**

The eLearning courses are the third most selling product of the company. These are digital programs that facilitate the training process, by increasing interactivity and accessibility. ED offers courses adaptable to any *LMS* platform, offering the possibility to personalize them based on customer's needs, and always respecting the appropriate quality norms. In the current context, most educational and corporate institutions are struggling with the pandemic, and flexibility is fundamental. Therefore, it has been acknowledged that online solutions have more importance than never, and online eLearning is the segment that contributes the most to the eLearning market, reaching a value of (€85) \$101 billion in 2019, while being expected to grow by more than 65% until 2026 (Statista 2020).

### **Apps and Web Services**

The company also builds up smartphone Apps and Web services, since it recognized that these digital platforms are an essential part of the business to meet corporate and educational needs. Adding this type of service into the company's activities surely delivers many benefits, especially by increasing the visibility in the market, by creating direct sales channels, by consolidating a strong brand image and reputation, among others. In this regard, ED helps its customers in the development of tailor-made websites, platforms, and applications. Due to the high expertise of the staff, who is continuously cooperating with clients, it is possible to guarantee innovative and personalized solutions.

### **Academic Management Software**

The Academic Management Software is a single unified platform that gathers the management of all areas of an educational institution, rendering it easier and more accessible. ED offers the service *EDUacadémico*, which provides mechanisms that optimally manage tasks

regarding training and management, with a high degree of personalization. It deals with enrolments and grade registration, emission of certificates, debt management, personnel management, and internal auditing system. This business segment also includes the anti-plagiarism systems, and the company has a partnership with *Urkund*, the second largest plagiarism management software in the world.

### **Gamification**

Finally, Gamification is the use of game components in a non-game context to make learning more appealing. Not only it increases the engagement and motivation, while improving the learning behavior, but it also results in a higher overall performance. ED develops eLearning solutions by offering a customizable service that blends training, competition, evaluation, and collaboration with gaming mechanisms.

As a matter of fact, gamification techniques enhance employee engagement by 60% and productivity by 50%, and the growth rate of game-based learning systems is forecasted to range from 27% in Asia Pacific, to 60% in Africa (Jay 2020). It is expected that, until 2021, the gamification market will be valued at nearly €10 (\$12) billion (Gough 2018). Even though the demand for this product is growing around the world, most companies are still very reluctant to invest in gamification. This is the reason why it is the least requested service of ED.

#### **iv) Employees' Structure**

The company counts on eleven employees, managed by the executive director Ricardo Santos, who is responsible for the most important managerial and strategic decisions, while travelling frequently to the international markets in which ED operates. The employees are divided into three multidisciplinary teams by region, who are thus responsible for the projects

developed in the respective countries. In appendix, **Table 1.1** describes the employees' structure and the respective roles.

#### v) **Target Market**

The company currently operates in four countries, all Portuguese speaking. Besides Portugal, the company exports to three *PALOP (Países Africanos de Língua Oficial Portuguesa)* countries, which are Mozambique, Cape Verde, and Angola. Soon, ED aims to consolidate and increase the number of clients in these countries, to rise its current market share and, consequently, to improve its market positioning.

The target clients of the company are mainly private schools, in the educational sector, and medium and large enterprises, in the corporate sector. In the latter, ED aims to hit a wide spectrum of corporate sectors, such as insurance companies, consulting firms and banks, etc. For instance, certified training and eLearning courses can be useful to any company in need of training for their employees, hence, ED is not narrowing its reach in this sector. In the educational one, private schools are the main target, even though the company has several public universities as clients.

Some of ED's biggest clients in these sectors are *The Navigator Company, CTT, KPMG, Direção Geral de Educação* and *Universidade do Minho*. Hence, the company only operates in the business-to-business area.

#### vi) **Business and Product Life Cycle**

A **Business Lifecycle** analysis, that comprehends 5 stages – *1. Seed and Development; 2. Startup; 3. Growth and Establishment; 4. Expansion; 5. Maturity and Possible Exit* – was conducted (Petch 2016) to evaluate ED's progresses to reach the **Expansion stage**. Founded in 2008, ED's position is currently well established within the market, with rising sales and

important partnerships with some of the largest software open-source producers in the world. The company has already set separate areas of activity, autonomously managed, with multidisciplinary teams trained in areas such as computer engineering, IT, management, design, multimedia, communication technologies, etc. Furthermore, ED is already expanding its products/services to new geographies, as stated above, and the internationalization process is being supported by the *Portugal2020* program.

Regarding the **Product Lifecycle analysis**, understanding in what stage ED's products are positioned can leverage managerial decisions, strengthening a company's solid strategy and competitive standing (Levitt 1965).

ED's offer is placed in the **Maturity stage**, since it is conquering an increased demand for eLearning services. The firm has been dominating a major parcel of the national and international markets, resulting in increased company's sales. Therefore, the company is both focused on the eLearning market (through digital content and multimedia), whilst expanding to new market trends of customized digital solutions, such as learning platforms based on entertainment. Thus, ED has been resisting to some competitors' threats that exist, as it will be further explored in the **section 1.c.i**.

## **b) Financial Overview**

For the financial overview, IES Declarations were primarily analyzed. For the sake of this analysis, the results from the Mozambique branch were not considered, since these are counted for *EDUdigital MOZ*, a company that is hold by ED, but independently managed.

ED has had an overall increase of income from 2016 to 2019, but not in a straight line. In this time frame, the EBITDA grew from €9765 to €11293 and the Net result from €1220 to €2426, and **Figure 1.1** exhibits this evolution. In 2019, there was a drop in income, but it was not linked

to revenues, that increased by 21%. In fact, it was the increase of costs that led to the drop in EBITDA and Net Income, led by an upsurge of supplies and external services and a down surge of exploration subsidies.

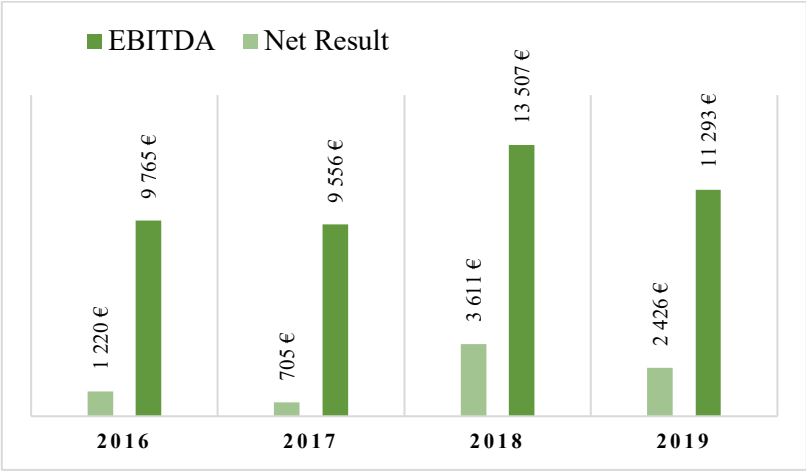


Figure 1.1: Evolution of EBITDA and Net Result from 2016 to 2019

In appendix, Table 1.2 and Table 1.3 contain the reformulated income statement and the reformulated balance sheet, respectively. From a reformulated statement perspective, throughout the 4 years analyzed, the weight of core activities – in terms of operations – is close to 100%. This is expected as ED is an SME and still does not have the scope to delve in non-core activities. Financially speaking, the company profits from a small tax shield that rotates around €100.

	2019	2018	2017	2016
<b>Gross Margin</b>	32,7%	36,0%	44,9%	56,4%
<b>EBITDA Margin</b>	5,6%	8,1%	5,7%	8,2%
<b>EBIT Margin</b>	2,6%	4,4%	1,6%	3,2%
<b>EBT Margin</b>	2,5%	4,4%	1,7%	3,6%
<b>Net Margin</b>	1,2%	2,2%	0,4%	1,0%
<b>Return on Sales</b>	3,1%	4,4%	2,3%	
<b>Interest Coverage ratio</b>	34,6	33,6	9,9	61,8

**Table 1.4:** Evolution of Gross Margin, EBITDA Margin, EBIT Margin, EBT Margin Net Margin, Return on Sales and Interest Coverage Ratio, from 2016 to 2019

Moreover, **Table 1.4** reveals some important ratios. ED has had low margins: for instance, the Gross Margin has been slowly decreasing over the years, while the Net Margin has been fluctuating between 0.4% and 2.2%. The declining paths have been accentuated by a series of high costs and high effective tax rates, that are reflected in **Table 1.5**.

	2019	2018	2017	2016
<b>Effective tax rate</b>	52,8%	51,0%	75,1%	71,3%

**Table 1.5:** Evolution of the Effective tax rate, from 2016 to 2019

As previously stated, it also makes sense that around 100% of the invested capital is focused on the core activities of the business. There is an evident drop in Invested Capital from 2018 to 2019, which is mainly due to two factors: the increase in Accounts Receivable, correlated to the increase in total revenues and number of clients, and the drop in Cash and Cash Equivalents. It can be observed that ED has a very high number of Accounts Receivable and a low number of Accounts Payable, which is representative of the low negotiation power of ED compared to their larger clients. In other words, this is translated by a mid-high buyer power. From a liquidity standpoint this can be a source of problems. In this respect, **Table 1.6** describes three liquidity ratios. The Net Working Capital and the Current ratio are respectable, however, the cash ratios of 2018 and 2019 should have been around 1. Increasing the cash ratio would allow the company to be more attractive to potential investors and lenders. ED has not invested in PPE ever since 2016, as depreciation has been linearly impacting this value throughout the years.

<b>Liquidity ratios</b>	2019	2018	2017	2016
NWC	94 042 €	49 711 €	124 780 €	66 246 €
Cash ratio	0,6	0,8	1,6	1,6
Current ratio	3,6	1,3	3,4	2,3

*Table 1.6: Evolution of the NWC, Cash Ratio and Current Ratio, from 2016 to 2019*

Additionally, **Table 1.7** contains ratios from an efficiency standpoint. ED presents a high asset turnover ratio, that is, however, not well complemented by a correct net trade cycle. This is a sign that the company could benefit from investments in Property, Plant & Equipment. The high average payment period of 2016 and 2017 is related to facilities provided to new business. The high collection periods from 2017 to 2019 can become a source of problem for the company as the company has a low cash ratio (0.57).

<b>Efficiency ratios</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets Turnover</b>	1,3	0,8	0,6	-
<b>Average collection period</b>	177	140	198	88
<b>Average payment period</b>	46	14	101	170
<b>Cash conversion cycle</b>	132	126	97	- 82

*Table 1.7: Evolution of Assets Turnover, Average Collection Period, Average Payment Period and Cash Conversion Cycle, from 2016 to 2019*

Furthermore, **Table 1.8** contains the Core ROIC Breakdown from 2017 to 2019. The low ROIC of ED is due to a low core operational margin which in turn is due to a low Net margin value (or Net Result value by causality). An internationalization project can be beneficial for this ratio, as it can help ED achieve a larger market potential and spread out their assets on more demand. The company is still young and with time if enough investment opportunities are followed with success the ROIC can increase with growth hand in hand.

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Core ROIC	2,4%	2,9%	0,4%
Core Operational Margin	0,02	0,03	0
Core Asset Turnover	1,2	1	1,6
<b>Core ROIC</b>	<b>2,4%</b>	<b>2,9%</b>	<b>0,4%</b>
<b>Overall ROIC</b>	<b>4,2%</b>	<b>2,7%</b>	<b>0,9%</b>

*Table 1.8: Core ROIC Breakdown from 2017 to 2019*

It can also be considered the ROA and ROE of ED, which has been divided through the *DuPont* Identity analysis, that is further described in **Table 1.9**.

<b>Profitability</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Return on Assets	2,5%	3,9%	2%
Return on Equity	4,2%	6,7%	1,3%
<i>DuPont identity</i>	4,2%	6,7%	1,3%
Tax burden	0,5	0,5	0,3
Interest burden	1	1	1,1
Return on Sales	3,1%	4,4%	2,3%
Assets Turnover	1,3	0,8	0,6
Leverage	2,3	3,8	3,6

**Table 1.9:** *DuPont Analysis*

Finally, from a Sales' Drivers point of view, Total Revenue can be divided either by segment or by country, as it is reflected **Table 1.10** and **Table 1.11**, respectively. The main source of revenue comes from the production of eLearning Platforms which is followed by eLearning Courses and Certified Training. It comes to mind that Certified Training became a greater source of revenue when ED moved from Portugal and Mozambique (2 countries) to 4 countries. Portugal has been increasingly becoming the most reliable source of revenue and Mozambique revenues dropped, while Cape Verde and Angola revenues went up.

<b>Segment</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
eLearning Platforms	59 554 €	40 485 €	58 299 €	92 208 €
eLearning Courses	26 311 €	40 861 €	69 311 €	26 011 €
Gamification	0 €	0 €	0 €	0 €
Certified Training	63 150 €	67 008 €	18 735 €	32 224 €
Academic Management Software	0 €	0 €	0 €	0 €
Apps and Web Services	4 314 €	12 618 €	19 211 €	17 133 €
Other	59 977 €	24 263 €	37 785 €	43 212 €
<b>Total</b>	213 305 €	185 235 €	203 340 €	210 788 €
<b>Percentual Growth</b>	15,2%	-8,9%	-3,5%	

*Table 1.10: Total Revenue divided by segment, from 2016 to 2019*

<b>Country</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Portugal</b>	91 701 €	98 433 €	72 877 €	22 465 €
<b>Cape Verde</b>	27 615 €	7 830 €	0 €	0 €
<b>Mozambique</b>	91 905 €	78 972 €	130 463 €	188 322 €
<b>Angola</b>	2 085 €	0 €	0 €	0 €
<b>Total</b>	213 305 €	185 235 €	203 340 €	210 788 €

*Table 1.11: Total Revenue divided by country, from 2016 to 2019*

### **c) Industry Analysis**

#### **i) eLearning Industry and its Competitors**

Due to the specialization in technological services related to training and learning, ED can legitimately be considered part of the eLearning industry. The goal of this sector is to provide accessible and relatively low-cost services to schools, universities, public and private entities. Despite being a niche market, it has been rapidly expanding and transforming the learning experience of the century. eLearning was born in the 90s, when educational institutions and companies started offering online courses. Since the beginning of the new century, it has grown by 900% (Pappas, Top 20 eLearning Statistics For 2019 You Need To Know [Infographic] 2019). In 2015, the global market was worth €90 (\$107) billion, and in 2019 it went beyond €168 (\$200) billion. It is forecasted to grow up to €206 (\$243) billion in the next 2 years, and to reach a peak of €275 (\$325) billion in 2025 (McCue 2018).

Within the global market, the US companies seem to exploit online learning at its best, reaching 77% in 2017 (Chernev 2020). In fact, firms that can keep their employees up to date with market changes will most likely gain a competitive advantage. In addition, experts believe that the technology will eventually shift from education to other sectors of the market, and that most of the upcoming demand will originate from developing countries. It is believed that all

these factors will contribute to an impressive growth of ED and their analysis is useful to plan the company's next steps on the road to success.

In Portugal, ED faces strong, even less specialized, competitors, which offer similar digital solutions to companies, government, and schools, such as *Edrom*, *Novabase*, *Clouts*, *ISQ* and *Cegoc*. For instance, the last one is focused on developing learning solutions for businesses, running in the coaching, recruiting, and consulting sector as well. In the national market there are several other smaller companies, such as *Distance Learning Consulting*, *E-LEARN PT®* and *Nova Etapa*, that provide "ready-to-wear", as well as tailor-made eLearning courses. Even *SGS* and *Bureau Veritas*, which are two of the world's leading companies for inspection and certification, also offer accredited training solutions for organizations and individuals to foster sustainable business development. However, it can be said that ED is one of the few Portuguese companies whose core business is focused on eLearning, hence mainly targeting the education sector, and offering a wide range of products and services that smaller competitors do not, including *LMS*.

In the African market, several startups are beginning to operate in this sector to provide tools to improve the educational system. For instance, *HITCH* is a platform started in Nigeria that offers high quality educational video content to African students in underserved schools (Idajili 2020). However, it is not possible to consider a small player like this as a threat, at least for the moment, since it is still in an early stage.

## ii) Porter's Five Forces Model

Michael Porter's Five Forces model is a helpful tool to examine the fundamental characteristics and structure of an industry. The forces in question can vary in strength across industries, and this is the reason why the related level of returns might be substantially different.

In business, the negotiation power of the parties is altered by several factors in favor of buyers or suppliers, while the possibility of entrants and substitute products or services could be a threat to the participants of a specific industry (Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* 1980). This analysis aims to assess the attractiveness of the eLearning industry along with the implied risks and threats that the company could face, to design a strategy that both fits ED's goals and the industry conditions.

### **Supplier Power: Mid-High**

Regarding ED's *Learning Management Systems*, the suppliers are *Moodle* and *Totara*. These companies produce the open-source platform required to provide clients with customized offerings. From this point of view, as the company would have developed economies of learning based on these platforms, switching presents a cost (Neef, et al. 1998). Other suppliers can also be individuals specialized in programming and development, which do not have strong bargaining power if the number of options increases. When it comes to other products and services, ED helps satisfy its human resource needs by working with the *Direcção Geral do Emprego and das Relações de Trabalho (DGERT)*. Some of their courses are done with the help of *Cambridge Education* and ED supplies institutions with the anti-plagiarism technology of *Urkund*.

### **Buyer Power: Mid-High**

Buyers of digital services have multiple choices in Portugal, while for African countries ED is the only option. By looking to ED's past clients, it can be observed that many of them are banks and other big corporations. This asymmetry in size causes the negotiation to be on the client's side. However, the creation of all ED's services is a process where both sides must collaborate, and this helps weaken buyer power (Kaliski, et al. 2008). Besides the size

asymmetry, buyers have high switching costs, and are reluctant to change and need more incentives. This aspect is negative from a demand point of view as it will be harder to convince potential clients to change services.

#### **Threat of Substitution: Medium**

eLearning is a disruptive technology as in an innovation that leads to its own market and can bring disruption to the classical learning market. Alternative learning forms such as TV Broadcasts, or CD and DVD learning are simply irrelevant and considered weak (Christensen, Raynor and McDonald 2015). The most threatening substitute is presential training, or real-life training. Companies and institutions might prefer this form, as it has been shown to be effective throughout times. The resistance to change towards online learning increases the threat of substitution.

#### **Threat of New Entry: Medium**

The acquisition of the necessary workforce, connections and the financial boundaries are solid barriers for potential new competitors. Integration is, however, a threat, since big corporations, such as *Moodle* or *Microsoft*, can vertically integrate and start customizing their own services for clients in all segment. Companies that are not specialized in online training could also be attracted by the profits granted by this growing industry and start offering these products and services.

#### **Competitive Rivalry: Mid-High**

Even considering that, within the eLearning industry, there are almost no companies in Portugal whose business scope is the same as ED, the national competition is still intense, since ED did not have a first mover advantage, unlike some national players. Competitors are relatively the same size and their strategies vary, while the market in which ED is operational is dynamic and offers many opportunities. If the service is accepted by big and prominent

clients, a change in competitive powers and advantages can happen. Moreover, if big corporations join in, competition can become even stronger.

### **Key takeaways**

Overall, ED's power with suppliers can be considered moderately high, and the same could be said regarding buyers. The risk of substitution is quite irrelevant, since the alternative learning modes are incomparable to what the company currently offers. Yet, the threat of a vertical integration is remarkable, and competition is intense. To become more predominant in the market and overcome these hazards, ED can keep differentiating its services through personalization and adaptation, pushing on the power of a committed customer service.

### **iii) Porter's Diamond Model**

Porter's Diamond Model aims to assess the competitive advantage of a country. The team believes it is important to determine if ED is inserted in a nation that is internationally competitive, and if the conditions in the national industry are favorable for innovation and progress. If the domestic market is highly competitive, the company will be more prepared to face the international environment and compete with foreign players. The model presents six dimensions that "individually and as a system constitute the diamond of national advantage" (Porter, *Competitive Advantage of Nations: Creating and Sustaining Superior Performance* 2011). The dimensions are: **Factor Conditions**, that includes the nation's factor of production, such as skilled labor or raw materials; **Demand Conditions**, that consists in the nature of the internal demand for that industry; **Firm, Strategy and Rivalry**, which is related to how companies are created, organized and managed, as well as the environment of internal rivalry; **Related and Supporting Industries**, that evaluates the existence of national suppliers and

complementary industries and their competitiveness; **Government**, that evaluates how the state encourages and supports the industry; and **Chance**, which includes random events that go beyond the control of companies or the government, that can be natural disasters, terrorism, etc. (Porter 2011).

### **Factor Conditions**

Portugal as a country is a great source of qualified workers, being the average yearly salary for an average software engineer around €22 000 (PayScale 2020). SMEs have shown a rise in number of employees hired and creation of value in terms of money. From 2017 to 2018, employment has risen by 3.4%, while value grew by 4.6% (European Commission 2019). Portugal is currently within the weakest European countries in terms of SMEs' internationalization. This issue is mainly due to weak access opportunities for SMEs to potential financing opportunities.

### **Demand Conditions**

Due to COVID-19, the overall demand for eLearning solutions has grown exponentially. This increase has been a boost for the adoption of online learning systems by educational institutions and commercial enterprises. Moreover, with the growth of education in Portugal, there is more room for a bigger demand in eLearning (United Nations Development Programme 2013).

### **Firm Strategy, Structure and Rivalry**

ED's strategic plan is focused on delivering competitive prices in Portugal. In the other African countries, ED – although there is no direct competition – still offers competitive prices as to be in line with willingness to pay of their clients. The relatively high competition in Portugal is an incentive and a driver for ED to internationalize, and the reason behind is the

need to acquire more clients and to increase revenues. These competitive prices practiced by ED are partly a consequence of the competitive environment that is facing in Portugal. ED would not be able to adopt a product differentiation strategy based on higher prices as the competition would be able to provide the same service combined with a better reputation.

### **Related and Supporting Industries**

Supporting industries are composed of the open-source platforms, such as *Moodle* and *Totara*, and other outsourced suppliers of information. By tapping into a network of educated people and experts, ED can provide courses, apps and gamification services that fit their clients' needs. Portugal provides an economy in which the access of service providers is easy and reliable. As a matter of fact, Portugal is ranked 43<sup>rd</sup> in the *Economic Freedom Index* and has a rating of 7.6/10 (Fraser Institute 2020).

### **Government**

Besides the *Portugal 2020* program, jointly initiated by Portugal and European Union, the Portuguese state is encouraging eLearning through the *EDUPORTUGAL* portal, that aims to help Brazilian students interested in studying in Portugal. The website also offers a range of eLearning options (EDUPORTUGAL 2020). The Portuguese government is also implementing policies that have as goal the “boosting” of SMEs by reducing administration times as to respond faster to their needs. Another policy aims to increase state aid and public procurement by helping SMEs to have more access to financing (European Commission 2019). As already mentioned, governments all around the world are starting to understand the importance of digitalizing education and are willing to invest more.

### **Chance**

Within the span of history, Portugal has colonized multiple countries, especially in Africa, such as: Angola, Mozambique, Brazil, Guinea, and Cape Verde (Crowley 2015). The

relationship between colonizer and colonized allowed Portugal to spread its linguistics to the colonized countries. In such a fashion, Portugal has a linguistic advantage in Portuguese speaking countries over non-Portuguese speaking competitors. This advantage has also allowed ED to go through with a successful bid at the *Portugal 2020* program, which had as a goal to help ED internationalize to the Lusophony markets of Portugal. ED also has the advantage of being present in Europe and of being able to profit from international trade relations.

### **Key takeaways**

The framework's goal is to provide a better understanding of the industry competitive advantages in the national and international arena. The competitive context and the quality of human resources highly affect ED's strategy, forcing the company to keep improving and developing its strengths. Other factors that push growth are undoubtedly the exponential increase in demand of digital services and the existence of strong and knowledgeable supporting partners. In conclusion, despite relatively weak financing opportunities, the overall conditions are favorable to grant ED the opportunity to upgrade and improve.

### **d) Environmental analysis – PESTEL**

Organizations operate in extremely complex macro-environments that can affect their business. Therefore, the study of these factors is vital for business planning and development. In the technological sector, things move at fast pace, so companies need to be constantly aware of changes in both internal and external factors, which can influence the success of their businesses. The PESTEL analysis breaks down the external macro-environment into Political, Economic, Social, Technological, Environmental and Legal (Carpenter and Sanders 2014, 75-77). Thus, the goal of this analysis is to achieve a conscious understanding of the macro-

environment in which ED operates and to ascertain what are the relevant external factors that affect the firm's business.

### **Political**

At the present time, it is expected a global increase in government initiatives to stimulate the digitalization of education (Businesswire 2017). As previously stated, **Governments are starting to recognize the importance of eLearning** and are willing to invest in it more than before. However, the type of investment depends a lot on how developed the country is and if there are other essential needs that must be fulfilled first. Developed countries tend to focus more on the improvement and implementation of technology, whereas developing countries would probably be worried about providing computers to the students (Businesswire 2017). The governmental structure of education also differentiates the way of making legislation related to eLearning. Countries where educational institutions are mainly held by the state, do struggle with implementing a cohesive eLearning policy that includes all public institutions. On the contrary, when institutions are private, governments can opt for advisory committees, that establish general rules and help the schools implementing it, as it happens in the UK (Rowell 2010). **Some countries have restricted access to the internet because governments use censorship and monitoring systems, and these restrictions seriously compromise the success of a technological company** (Bischoff 2020). There is still a lot of discussion upon this topic, with people arguing that it is censorship and the government saying it is for the security of the citizens (Giles and Mwai 2020).

### **Economic**

**eLearning is a cost-effective alternative that contributes to solve inequalities of opportunities among students, which sometimes arise from differences in the family's**

**financial situation.** Therefore, it can be very useful to students who are not able to travel to attend school, since they can choose to frequent classes from home (Arkorful and Abaidoo 2014). Due to the recent pandemic, the world is suffering the biggest crisis since the 1930 depression (BBC NEWS 2020). With many people losing jobs, the consumption is decreasing and affecting many companies around the world, except for the ones in which the business can survive. **Examples of sectors that were boosted by COVID-19 can be eLearning, entertaining, remote working tools, and software** (Somanas 2020). The niche market in which ED operates is one of those that grew, since the pandemic reinforced its importance as an alternative way of learning. **There are many economic incentives coming from the EU destined to technology companies.** For instance, in scope of the *Portugal2020* program there is the *Compete2020* initiative that fosters the exports of tech companies through its *Portugal Digital Export* project (Portugal2020 2020). These programs are funded by the EU and have the goal of helping in the development of SMEs, making them more competitive and dynamic (Portugal Digital Export 2020).

### **Social**

One disadvantage of eLearning regarding the social field is the **lack of physical interaction amongst students and teachers** (Cantoni, Cellario and Porta 2004). The absence of discussions can contribute to a worse knowledge experience, since students are learning to express themselves and to discuss with other students (Castaneda and Rentz 2020). However, the industry is trying to overcome this problem with the growing use of automated activities, such as AR (Augmented Reality) and VR (Virtual Reality), striving to create more real and interactive eLearning experiences (Pappas, 7 Ways AR/VR Technologies Impact eLearning 2018). The recent growth of the sector and its projections are the proof that eLearning is getting an ascending acceptance from the educational community and companies. There is some degree of reluctance when shifting a business to digital, but the sector has already crossed that barrier,

and the trend is for companies and universities to opt for increasing the use of eLearning, instead of traditional teaching (McCue 2018). Career development opportunities and access to training are highly valued by employees. **In fact, companies are certain that investing in training brings higher productivity, while recognizing the need of having training programs personalized to their business needs** (International Business Machines 2014). Thus, eLearning companies with highly personalized products are expected to be very potentiated in this sector. To guarantee higher retention rates, companies are more committed to provide good training programs to their workers.

### **Technological**

**Big Data analysis and Machine Learning mechanisms will contribute to the further development of the eLearning industry.** While the former helps companies in improving and correcting their products used by clients providing immediate feedback, the latter assists in personalizing courses based on trainee's goals and earlier results (Axelsson 2017). **Technologies that provide a higher engagement of the trainee while using eLearning are also growing.** The gamification sector is booming because it motivates, helps to solidify contents, and makes trainees spending more time on the platform (Jay 2020). It can help eLearning makers to differentiate with unique products while boosting the productivity of their clients. **Augmented Reality and Virtual Reality can also contribute to more immersive learning programs** (Pappas, 7 Ways AR/VR Technologies Impact eLearning 2018). These technologies can help to solve the lack of interaction associated with online education. They are still starting to be used in this sector, but they can turn out to be crucial to its development.

### **Environmental**

Fossil fuels, used in the electricity and transportation sectors, were considered a leading source of the world's global warming pollution, hence there is a tremendous pressure to decrease its consumption levels worldwide (World Wildlife Fund 2020). Thus, studies have

been evidenced that **eLearning can contribute to significant cuts in energy consumption and in CO2 emissions**, when compared with the less efficient conventional education method (Pappas, Top 20 eLearning Statistics For 2019 You Need To Know [Infographic] 2019). eLearning solutions replace physical training, and this will positively impact the carbon footprint, since less energy related with heating, cooling, or powering the facilities will be used. Also, it eliminates the need to travel to training centers. Finally, less office furniture will be acquired and discarded every year, which is expected to diminish the harmful effect of fossil fuels on the environment. In this regard, deforestation and tree-clearing were considered the second most important causes of global warming, and the major reason of habitat loss for many species (World Wildlife Fund 2020). These phenomena are responsible for one-fifth of global greenhouse gas pollution (World Wildlife Fund 2020), and the paper industry is a major contributor for them (The World Bank 2020). Therefore, there is an **increasing concern regarding paper waste worldwide**, and by replacing classroom training by eLearning solutions, there will be no need of having documents in paper forms, thus helping to save the environment.

### **Legal**

As the society moves towards a digital era, **conflicts over data access become increasingly complex**, and there is a delay in the potential business impact (Lamarre and Brett 2019). Thus, as governments implement strict data sovereignty and privacy regulations, **companies face more restrictions and complications**. This can stall some companies' digital transformation and create obstacles to the adoption of more technological procedures, such as eLearning solutions. **Advancements in the IT industry also led to the emergence of global problems, such as cybercrime, which is linked to tremendous risks but also to other huge opportunities for tech companies** (Huntsman 2019). Nevertheless, there is an increased pressure for companies to offer secure and protected services, as ED does.

## **Key Takeaways**

To assess the viability of the expansion, it will be crucial to analyze both governments expenditure and legislation on education for each country, also considering restrictions to internet access. Economically, this period allows ED to take advantage of an unexpected growth in the eLearning sector, together with the incentives provided by the EU. Despite an initial reluctance, companies and schools are becoming more comfortable with digital solutions and advanced technologies could help in solving potential problems. This shift not only represents a benefit in terms of costs, but also in environmental impact. However, government restrictions on data privacy could be harmful for the transformation. Overall, it can be acknowledged that this could be the right moment for a digital company to expand and grow successfully.

### **e) Internal Analysis**

#### **i) Resources and Capabilities Analysis**

The Resources and Capabilities Analysis was conducted to understand whether ED has any competitive advantage, given the firm's structure and organization. The following definitions are presented for a better understanding of the subsequent conclusions (Pauwee and Farndale 2018): **A. Resources** englobe any asset, process, skill, or item of knowledge that company's activities require to provide products or services to its customers. Therefore, can be divided in several categories, namely human resources, physical resources (tangible assets), financial resources (financial assets), intellectual capital (patents, copyrights, trademarks, "know-how"), among others; **B. Competences** are activities or processes that the company

performs, by using its resources, thus offering value to customers. The efficient use of the resources will allow the company to distance itself from competitors; **1. Threshold Capabilities** are the minimum level of capabilities for the company to operate in each market.; and **2. Distinctive Capabilities** include a set of unique company's capabilities, that give the company a competitive advantage over the rest of the market.

In this regard, ED is believed to have the following threshold resources, threshold competences, distinctive resources, and distinctive competences.

#### **A1: Threshold Resources**

- **Multiservice company:** ED operates in two main segments – Training and Education – while offering a diversified portfolio of products and services, that meet the needs of the new technological era.
- **Multidisciplinary teams:** ED works with specialized teams in the most various areas from computer engineering to management, from design and multimedia to pedagogy in information and communication technologies.
- **Valuable Partnerships:** ED partners with the major open-source software developers worldwide, such as *Moodle* and *Totara*, and with the 2<sup>nd</sup> largest world plagiarism management software – *Urkund*.

#### **B1: Threshold Competences**

- **Ability to build a strong client base:** ED has been able to attract new clients and projects, since prior or existent clients were satisfied with the service offered, recommended the company to others, or bought more products. Moreover, the recent pandemic resulted in an overload of proposals and the company currently works in more than 50 projects.

- **Customization:** ED implements platforms and technology learning solutions and develops digital content to meet each customers' specific needs and budgets. Customization is necessary as each client requires a custom service that meets the standards needed.

#### **A2: Distinctive Resource**

- **Exploration Subsidies:** ED takes advantage from the funding opportunities that emerge from the strategic partnership with *Portugal 2020*. It represents a major contribution to the company's EBITDA, and consequently, to its positive Net Result.

#### **B2: Distinctive Competences**

- **Customer support:** Since the company is relatively small, the employees really commit to help their clients and to satisfy all their needs. In fact, ED provides technical and pedagogical support to its clients throughout all the process (from the implementation, to the installation and post-sales).
- **Competitive prices:** ED's offering is highly price-competitive yet practicing prices that are aligned with the market's average. ED offers products and service that accommodate technological, multimedia, and pedagogical requirements, resulting in an output that is both high-quality and feasible.
- **International Management:** since ED entered the business late, it must deal with several limitations in the Portuguese market, such as the fierce competition and conservative-minded potential clients. Consequently, the company has been expanding to less saturated markets, namely African countries, working mainly with SME, and benefiting from the lack of competitiveness.

#### **Key takeaways**

While the threshold resources and capabilities are the basic required to be able to compete in a market, since possessing them makes it possible to satisfy the minimum consumers' expectations, the distinctive ones allow the company to gain a competitive advantage over competitors, by delivering a superior performance. Once, the offer of customized products was a source of advantage, but now might be considered as the bare minimum to survive in competitive markets. Therefore, despite offering several services to an established and growing client base, ED must push on what distinguish it the most. It is considered that ED's international management, together with its price competitiveness, can really be a source of differentiation. Also, other unique qualities which have been obtained thanks to exploration subsidies and great customer support are attributes that could lead the company to success. ED should further work on mapping the core activities through value chain analysis and benchmarking, which would allow to identify the distinctive capabilities that might not be easily noticeable by consumers and management.

## ii) VRIO Framework

The VRIO framework presented in **Table 1.12** was used to analyze the resources and capabilities of the company to assess their competitive potential. In this way it will be possible to distinguish the firm's internal weaknesses and strengths, that will eventually turn into a competitive advantage (Barney and Hesterly 2008). For a better understanding of the following table, the following definitions are presented: **Value:** a resource adds value when it can exploit an opportunity and neutralize threats; **Rarity:** resource that is not controlled by numerous competing firms; **Inimitability:** resource that is not easily obtained or developed by others; and **Organization:** resource that is fully organized to fully exploit its competitive potential.

The main objective is to understand what is the competitive position of the resources and capabilities that the company possess, which can be: **Competitive Disadvantage**, if the

resource is not valuable, meaning that the company is behind competitors; **Competitive Parity**, if the resource is valuable, but not rare, and if more than a few players have the same ability; **Temporary Competitive Advantage**, if the resource is valuable and rare, but it is easy to imitate, thus meaning that the company might have the first mover advantage, but it will be easy for competitors to acquire or develop; or **Sustainable Competitive Advantage**, if the resource carries all the four characteristics, being the goal of every firm to distinguish themselves and expand in the market.

Threshold Capabilities		<b>V</b>	<b>R</b>	<b>I</b>	<b>O</b>	<b>Conclusion</b>
	<b>Multiservice company</b>	Y E S	N O	N O	Y E S	<b>Competitive Parity</b>
		<ul style="list-style-type: none"> <li>- ED offers 6 types of different services, being able to easily meet each client's needs.</li> <li>- Peers in this industry usually have a portfolio of diversified products.</li> <li>- The resource is already being imitated by other players.</li> <li>- ED offers a service line organized to reach a wide range of market needs and to capture value.</li> </ul>				
	<b>Multi-disciplinary team</b>	Y	N	N	Y	<b>Competitive Parity</b>
		<ul style="list-style-type: none"> <li>- A team with diversified backgrounds complements and contributes to the firm's specific objectives.</li> <li>- The use of this HR structure is very common.</li> <li>- Any company can build a team with diversified qualifications.</li> <li>- Each member of the team is allocated to projects according to their qualifications to achieve full potential.</li> </ul>				
<b>Valuable Partnerships</b>	Y	N	N	Y	<b>Competitive Parity</b>	
	<ul style="list-style-type: none"> <li>- Partnerships are a key to develop networks and to prosper in different markets.</li> <li>- ED's key partners have links with other firms around the world.</li> <li>- Building partnerships can be quite easily replicable.</li> <li>- Key allies allowed ED to retain knowledge and apply it to build a better service.</li> </ul>					
	Y	N	N	Y	<b>Competitive Parity</b>	

	<b>Ability to maintain and increase client base</b>	<ul style="list-style-type: none"> <li>- The ability to maintain and grow the client base is what allows a company to prosper.</li> <li>- Many companies can build customer loyalty.</li> <li>- It is one of the main goals of a company: hard to achieve, but successful companies in the industry can do it.</li> <li>- The company is ready to focus on maintaining their client base by creating a network that would increase awareness and visibility.</li> </ul>				
	<b>Customization</b>	Y	N	N	Y	<b>Competitive Parity</b>
<b>Distinctive Capabilities</b>	<b>Customer Support</b>	Y	N	N	Y	<b>Competitive Parity</b>
		<ul style="list-style-type: none"> <li>- With its customized offer, ED builds projects that contribute to increasing customer satisfaction and value.</li> <li>- Every customer has specific needs, so most firms adapt their offer accordingly.</li> <li>- This feature can be implemented by any company.</li> <li>- ED works closely with their clients and customizes every project to their requirements, providing the best quality service.</li> </ul>				
		<ul style="list-style-type: none"> <li>- Customer Support is one of the most important tools to increase satisfaction.</li> <li>- ED is not the only company providing this service.</li> <li>- Imitable by competitors that have enough resources.</li> <li>- ED takes advantage of this capability to get closer to its customers.</li> </ul>				
	<b>Exploration Subsidies</b>	Y	N	N	Y	<b>Competitive Parity</b>
		<ul style="list-style-type: none"> <li>- Increased exploration subsidies imply funding opportunities. This has been allowing ED to integrate projects that bring value to the company.</li> <li>- Some of ED's competitors do also benefit from strategic partnerships, that offer exploration subsidies. As an example, IQS also partners with Portugal 2020.</li> <li>- The remaining companies in this sector can also apply for exploration subsidies. ED takes advantage from this exploration subsidies, since they are really supporting its internationalization process, as well as the company growth.</li> </ul>				
	<b>Price Competitiveness</b>	Y	Y	N	Y	<b>Temporary Competitive Advantage</b>

		<ul style="list-style-type: none"> <li>- The strategy is valuable to stimulate demand and gain market share in the target market.</li> <li>- The industry is associated with high costs but building upon already existing products is less costly. Also, generally, companies bet on cost over quality, and vice-versa.</li> <li>- The players can adapt their cost structure to achieve lower costs and dominate the market.</li> <li>- The company is structured in a way that allows them to have low costs and practice a lower price by outsourcing.</li> </ul>				
	<b>International Management</b>	Y	Y	N	Y	<b>Temporary Competitive Advantage</b>
		<ul style="list-style-type: none"> <li>- ED is already present in international markets, experiencing a more diversified knowledge and background in African markets.</li> <li>- As an early mover, ED was able to acquire experience and information of that industry that no other company has</li> <li>- The international presence is not that strong yet, being easily replicable.</li> <li>- The expansion process is structured to gain customers and market share with an adequate cost structure, allowing the firm to capture value.</li> </ul>				



*Table 1.12: VRIO Analysis*

### **Key takeaways**

Capabilities and resources of value allow the company to respond to external threats, gaining competitive parity. Rarity will transform the capability from threshold to distinctive to reach a competitive advantage. ED was able to gain this advantage by having the experience of the African market and by finding a way to provide affordable, but high-quality services to a broad range of clients, increasing the brand's value and the market presence. However, in Portugal, competition is high, and many peers possess the essentials to be present in the business. Sustaining and developing distinctive competencies is necessary for ED to fight external threats and to survive in the long term.

### iii) Porter's Generic Strategy Model

The fundamental basis of Porter's Generic Strategy combines the two most common types of competitive advantage – cost and differentiation – with the scope of a strategic target, that result in the generic strategies that can be used to outperform the firms in the industry (Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* 1980), as shown in the **Table 1.13**.

	<b>Cost</b>	<b>Differentiation</b>
<b>Broad Target</b>	Cost Leadership	Differentiation Leadership 
<b>Narrow Target</b>	Cost Focus	<b>Differentiation Focus</b> 

*Table 1.13: Porter's Generic Strategy Model*

ED is a small company that operates in a niche market, focusing on technologies applied to learning and training, that narrowed down their target scope to customers with the specific need for eLearning. This focus strategy allows the company to serve a narrow strategic target better than competitors with a broader target (Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* 1980). The company strives to offer a competitive pricing, but also commits on the differentiation of the services provided, by customizing the products to meet the consumer's needs. Besides focusing on a specific area, ED compromises on providing a wide range of products and a top-quality customer service, which allowed the company to establish in the Portuguese market and to conquer some market share.

It was concluded that the **Differentiation Focus** is the strategy that ED is currently adopting with the aim to achieve a higher competitive advantage and to become an above-average performer in the market. A disadvantage of this strategy is that, since a niche market is

targeted, a lower volume of revenues can be achieved. Thus, the bargaining power of the supplier increases, but the firm can still be able to pass on the costs to the customers thanks to the high customization of the products.

In this industry, ED's main competitors in Portugal are *ISQ* and *NOVA BASE*, which provide eLearning products while also developing systems for other purposes, meaning that their target is extensive. Since their focus is the elevated quality service for a wide range of areas and do not demarcate with a low price for their services, these players pursue a Differentiation Leadership strategy.

#### **f) SWOT and TOWS Analyses**

##### **i) SWOT Matrix**

The SWOT analysis allows the alignment of organizational issues to understand how strengths can be leveraged to take advantage of new opportunities and how weaknesses are eroding the company's competitive position (Helms and Nixon 2010). The framework is divided into: **Strengths**, that define the components at which the company excels and differentiates from the competition; **Weaknesses**, which describe the segments that stop the company from operating at an optimum level; **Opportunities**, that are related to external factors that the company can take advantage of to reach competitive advantage; and **Threats**, which are external factors that can potentially harm the firm's activity (Grant 2020). This framework is very important for decision making processes, and should be done before any action is initiated, whether is the exploration of new projects, take advantage of new opportunities, or changes in internal management.

In this regard, the company is considered to have the following **Strengths**:

- Strategic partnerships with the main open-source software developers in the market (*Moodle* and *Totara*) and with the 2<sup>nd</sup> largest management software (*URKUND*).
- Customization of the product based on clients' needs and budgets.
- Multidisciplinary team with experience in the most diverse areas (management, design, engineering, multimedia, ICT, among others).
- Consolidated range of clients in Mozambique, Portugal, Cabo Verde, and Angola.
- Only company in Portugal with core business focused on education.
- Affordable products and services, that are simultaneously high-quality.

Also, ED's **Weaknesses** are the following:

- Lack of a strong, cohesive, and planned communication strategy (started investing in advertising on social networks in 2016), implying some inertia related to digital change.
- Relatively small team, often facing work overload. The cost focused strategy increases demand that sometimes cannot be fully satisfied. No proper project screening is done.
- Impossibility to exploit economies of scale due to customization.
- eLearning courses are difficult to export to foreign countries since translation and adaptation are needed.

Moreover, the following **Opportunities** should be considered:

- eLearning industry and digitalization trends are growing worldwide, causing increased demand for the companies in this sector.
- Growing need of businesses to train their employees fast, easy, and efficiently, especially in the current pandemic landscape.
- Vast national and international market, meaning a high number of potential clients.
- Relatively low competitive market in Africa due to the low number of players.

And finally, some **Threats** should be considered, such as:

- Fierce competition in Portugal, even considering that there are no companies with the same business scope as ED.
- Businesses still feel apprehension in investing in technologic services.
- Potential customers are conservative and are not prone to change their usual suppliers; they sometimes fear a lock-in or do not trust the vendor.
- Relatively low investment in eLearning globally.
- Difficult financial and economic situation in the Portuguese-speaking countries where ED operates (especially Angola).

### **Key Takeaways**

During a period characterized by increasing digitalization and need for training, there is a huge opportunity for ED to act and expand to a huge international market. To do so, ED should harness its strength and uniqueness, which are mainly linked to valuable partners and to a versatile team committed to fulfil the needs of a consolidated client base. On the other hand, it would be necessary to keep track of the potential threats that could affect the company's success, especially in terms of competition and reluctancy for technological solutions. To fully pursue this digital transition, the team might implement a meticulous screening process to better handle project workload, and it must also work on enhancing the communication strategy to gain a better position in the market.

## ii) TOWS Matrix

The TOWS analysis combines the firm's external threats and opportunities with the internal strengths and weaknesses, thus aiming to provide strategic recommendations.

By recognizing that **Strengths** can be used to take advantages of the **Opportunities**, some recommendations are described below:

- During the pandemic, the need to train employees fast and remotely grew. Therefore, ED can take advantage from this increased demand, since works with open-source solutions which are cheaper, while also being efficient, and so can serve many companies that want good price/quality relation.
- Continue to deliver high-quality products at a competitive price, to earn the market segment of companies that want cheap but reliable eLearning solutions.
- As technology becomes more accepted worldwide, the company should take advantage of being the only one in Portugal with its core business in education to increase its market share in this segment and differentiate from its competitors.

Then, **Strengths** can avoid potential **Threats** if the following considerations are done:

- The PALOP countries are in a difficult economic situation, thus *LMS* solutions offered at a competitive price will be preferred. ED should focus on maintaining competitive prices in that market.
- The company should keep focused on consolidating and growing clients in the PALOP, as there are strong competitors in Portugal.
- The investment in digital learning is relatively low, thus, ED should keep working to obtain EU funds, namely from *Portugal2020*, aiming to develop valuable projects and gain notoriety.

Moreover, **Opportunities** can be addressed to overcome **Weaknesses** by recognizing that:

- The lack of a strong advertising strategy during the pandemic was not very harmful to the company due to a big increase in the demand for eLearning solutions. However, ED should still plan on developing a communication strategy to reach more valuable clients.
- The low investment in eLearning is supposed to increase in the next years, as the sector is getting acceptance from the education sector (McCue 2018). Since it is a growing sector, the company should keep it as its core business.

Finally, to minimize **Weaknesses** and to avoid **Threats**, the following recommendations should be considered:

- The recent pandemic changed the landscape of the eLearning industry as the high increase in demand devalued the problem of low investment in eLearning. Now with ED having a small workforce, their focus should be on delivering quality and affordable solutions rather accepting any project proposal.
- Even though the company feels is not ready yet to export eLearning courses, eLearning platforms can be exported without efforts, and they are already the area that generates more sales to ED. Expanding the *LMS* offer internationally can make the company grow. Also, ED should try to develop the eLearning courses segment in order to export this service too.

### **Key Takeaways**

Offering relatively cheap but efficient services would help the company to grow its market share, especially in the PALOP countries, where the economic situation is getting worse.

However, the company should mainly focus in increasing the services quality, while keeping them affordable. The fact that ED is the only company operating in the education sector as a core business, and the possibility of being funded by the EU, are factors that would surely favor the company. As already mentioned, the absence of a strong advertising strategy must be filled, even though it has been offset by a significant increase in demand during the pandemic. In terms of export, *LMS* are the best product to offer in the international market, but eLearning courses should be pushed as well. ED should try to balance the projects' workload by selecting the best and more profitable ones to develop, since size constraints sometimes make the team work on too many activities simultaneously.

### **g) Diagnosis for Internationalization**

#### **i) Motives for Internationalization**

According to *Dunning's* theoretical framework (Dunning and Lundan 2008), four motives push firms to look for new opportunities outside of their domestic market. The first one is **market seeking**, which means getting access to new markets and customers, compete with the main rivals in their markets, or locate production close to the clients. Another motive can be **resource seeking**, or in other words, to have access to materials not available or too expensive in the home country. Moreover, **efficiency seeking** is another motive to internationalization, and involves the intention of exploiting differences in factor endowments and reduce costs, taking advantage of incentives from governments, economies of scale and the lack of trade barriers. The last motive is **strategic asset seeking**, not merely focused on assets, but on strategic considerations.

Of course, these motives are not the same across the different industries and are highly affected by the company's size and experience in international markets. ED is a relatively small

enterprise, but it is already engaged in multinational activities with few Portuguese-speaking countries. Now, the company is still hesitant to expand further. However, it is important to consider this improvement to exploit many benefits.

Therefore, ED has several reasons to internationalize and broaden its vision in terms of economic strategies for better future perspectives. Firstly, growth opportunities, especially regarding sales and revenues, would surely appeal to the company. Moreover, enhancing the market positioning at an international level could also be beneficial at a local level. Then, the expansion towards other countries will bring knowledge in terms of innovation capabilities, new technologies and skills, additional network links and partnerships, among others. Finally, the fact of having a saturated domestic market together with the existence of attractive government incentives, such as chambers of commerce that facilitate commercial relations between countries, should stimulate the company to go abroad. However, international markets are becoming increasingly global and dynamic, hence a thorough analysis is needed before deciding to pursue an expansion.

In conclusion, it can be stated that the *market seeking motive* is dominant for ED.

## ii) **Global Readiness**

The internationalization process is not always feasible for every company due to several barriers. These can be related to external factors such as competition, inaccessible information, bureaucracy, or government restrictions. Alternatively, the limitations might be internal and concern financial resources, management, or communication issues, as well as many other corporate matters.

The financial constraint could be a threat to the company when expanding internationally since the process would obviously require some financial investment. Since ED

has already gone outside Portugal, the management might be quite at ease handling another international operation. Nevertheless, the company has never dealt with non-Portuguese speaking countries. Going global will inevitably require the team to interact with a foreign language, and to eventually adapt the communication strategy to the different countries. The only way to solve this problem would be to hire people who speak the local languages and know the foreign cultures. This would mean increasing costs, the number of employees, and slowing down the processes. Besides, products such as eLearning courses are more complicated to export since they need to be carefully translated. On the other hand, *LMS* platforms could be implemented in any country in the world without extraordinary efforts.

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**Field Lab SME Competitiveness – EDUdigital's International Entry Strategy**

**FRANCISCO COSTA NETO TAVARES GOMES**

Work project carried out under the supervision of:

**João Pedro Pires dos Reis Muralha Delgado**

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## 4. INTERNATIONAL ENTRY STRATEGY

### a) Literature Review

To develop an international entry strategy, three different frameworks were used. The Uppsala Model was applied to evaluate the previous expansion project of the firm to the African colonies. This analysis aims to understand the engagement level of the firm in those countries and evaluate the stage of the expansion there. Also, it will be important to analyze what were the problems with those expansion projects in order to overcome them in future projects. Then, the possible entry modes will be analyzed in terms of the degree of control ED should have in the internationalization project. The framework used will be a model taught by Professor Emanuel Gomes during the Lectures on the International Business course in Nova School of Business and Economics. The purpose of this framework is to reach the ideal entry mode for the company after analyzing both internal and external factors that influence the firm's business. The last framework in analysis will be the Strategy Diamond. This tool will be the summary of the reasons to internationalize and will define the path to follow. It is the more complete and broadly scoped framework of this analysis and should answer the main questions related to the expansion project to Sweden.

#### i. Uppsala Model

Delineating the company's profile is the step that precedes the assessment of an optimal entry strategy. The Uppsala model describes internationalization as an incremental process that involves higher engagement at each step. Basically, market knowledge will lead to market commitment and market commitment will lead to market knowledge. Market commitment is the combination of the quantity of the resources committed and the degree of that commitment; Market knowledge is the experiential knowledge obtained by a firm when starting foreign operations, more difficult to acquire than objective knowledge (Johanson and Vahlne 1977, 26). Each of these two terms are always contributing to raise the other, hence,

they are the engine of the internationalization process. At first, firms tend to expand their operations to markets where uncertainty is minimized and with low resource commitment, to obtain experiential knowledge. Once the internationalization begins, market commitment and market knowledge gradually increase (Pandian and Sim 2002, 4).

A more recent approach of the Uppsala by the same authors of the original model, divides it into stage and change components. Change components are the ones that would generate the development of the internationalization process, whereas the state components will change as a result of progress in the change variables. The change variables are commitment process and knowledge development process, and the stage variables are the firm's operational and dynamic capabilities and the commitment's performance (Johanson and Vahlne, From Internationalization to Evolution: The Uppsala Model at 40 Years 2017).

Also, there are more recent studies arguing that the development of internet has changed the internationalization process as it was described in the Uppsala Model in certain industries. One of those industries that has changed is related to technologies for open-source software development. This is the industry where ED is inserted and so, the reasoning of such studies can be of interest to complement the Uppsala Model. In this approach, the internationalization process can be quickened due to the development of internet, that facilitate customer interaction and customization (Autio and Zander 2016). Thus, there can be an increase in market knowledge without the need to incur in additional market and resources commitment.

Afterall, the Uppsala Model should be taken into account when analyzing and projecting the firm's international expansion, but it should be complemented with the changes of recent studies that include the advances of the technology which are crucial in ED's environment.

## ii. Entry Modes by Degree of Control

Entry strategies can be grouped into three categories, that somehow reflect the path of a company from the early stages of internationalization to the last steps of the process, when the firm gains more experience.

- *Low-control Strategies* are the optimal mode of operation for firms that have poor international experience. Entering a market by directly – or indirectly - exporting products and services without relying on intermediaries implies not only less risks, but also limited resource commitments and maximum flexibility on business operations.

Entry modes: exporting and countertrade, global sourcing.

- *Moderate-Control Strategies* include intermediate entry modes for companies which require a higher degree of control over their affairs and can afford it in terms of resources. Strategies like Joint Ventures rely on collaborative control modes to share risks and costs while increasing market knowledge.

Entry modes: licensing, franchising, contractual strategies, project-based collaborative ventures.

- *High-Control Strategies* grant companies a full control over the development of foreign operations. These strategies entail a substantial resource commitment and large firms are more likely to have the right abilities to cope with higher costs and to absorb the related business risks. On the other hand, it allows the highest return on investment.

Entry modes: minority-owned, majority owned equity joint ventures, wholly owned subsidiary.

### iii. Strategy Diamond Framework

The Strategy Diamond Framework divides the international strategy into five different dimensions: arenas, vehicles, differentiators, staging & pacing and economic logic (Wright, Kroll and Parnell 1998). The arenas are the dimension that include the geographic region of the expansion, as well as the channels that should be used there and possible advantages of going to that place. Vehicles represent the entry mode chosen by the firm and, in this project, they will be analyzed with the method presented above, based on the degree of control of the firm. The competitive environment is studied in the differentiators dimension. The staging & pacing dimension will define the speed of the internationalization process taking into account the characteristics and desires of the company. The economic logic variable will be helpful to study whether the results of the expansion are aligned with the company's goals. The strategic diamond deals with a broad scope of the variables of an internationalization process, hence, it will be used to define the Swedish Expansion Project's decisions.

#### **b) EDUdigital in the Uppsala Model**

In order to select the right expansion strategy, it is necessary to understand the character of ED as well as its current position in the market. ED started engaging operations in Portugal, and only later in Angola, Cape Verde and Mozambique, and, for this reason - among others - it is not possible to categorize ED as a "born global" company. The market-specific knowledge in these African countries to where the company is already present, was obtained by own experiential learning. However, it is important to acknowledge that the process has been greatly facilitated by the existence of strong colonial ties, that have helped in spreading the language and other cultural inheritances. The cultural proximity was crucial for the market knowledge development in the African countries and it was one major reason for the choice of expanding to these markets. Even though the market knowledge was obtained quicker and is in a good position, ED is not performing so well in the commitment process in these countries.

ED has its own employees in Mozambique and incurs in considerate costs related to travelling expenses, which means that there is some degree of resources commitment in that country, however, in the other countries, ED does not have employees there and spends less in traveling. Therefore, ED's commitment in terms of resources is moderately high in Mozambique and low in the other countries, meaning that the company is in a medium stage of the process in Mozambique and in the beginning in other PALOP countries, if considering the original Uppsala Model. However, considering the model where the lack of high resource commitment does not necessarily mean that the company is not evolving in its international expansion (Autio and Zander 2016). The company can be taking advantage of the development of the internet, to reduce the costs related to exporting and the resource commitment there. ED is being able to sell to Angola and Cape Verde without the need of hiring new employees because the product and the technology it uses, enables the company to do so.

For the internationalization project to Sweden, the company will have more difficulties in developing market knowledge because of the cultural and language differences. Also, the resource commitment will be higher than in the previous expansion because of the costs related to translation. To deal with the difficulties in obtaining market knowledge, ED should try to do regular business trips to the country to get used to the business culture of the country. Also, an effort to take advantage from the development of technologies in order to reduce costs in the expansion project.

**c) Type of International Entry Strategy Chosen: Low-Control – Exporting – Direct Exporting**

According to the “Degree of Control” framework explained above, ED must follow a *Low-Control* Strategy of Market Entry. More specifically, *exporting* would be considered the most appropriate entry mode for the first phase of the international expansion. Therefore, this would mean ED sending services from the national to the international markets.

Some arguments for this strategic choice will be presented. In general terms, it implies lower levels of *resources commitment*, thus lower *risk*. At the same time, it gives the company maximum *flexibility* (regarding exit-market decisions, for example) and *autonomy*, even restricting the contact, influence and *control over foreign operations and markets*. More specifically, *internal* and *external factors* were considered, as well as *transaction specific* and the *desired mode*.

In terms of internal factors, ED can be considered as a small company, since it counts on 12 employees only. This means that the company has a high flexibility, minimum level of resources and does not have the financial capacity to control over foreign operations. Moreover, ED has a limited international experience overall. Even though it already started to expand its operations to three different countries, they are all in the same continent and joined by the same language. Also, the company has just one client in Angola. Therefore, the results and the learnings from these countries are not a good proxy for the success of a new internationalization. Thus, ED must particularly focus on the associated risks of this project. Finally, it is believed that ED's competitive strategy will allow ED's exported services to conquer increased market share in Sweden.

Thereafter, external factors were also analyzed. In terms of sociocultural distance and demand uncertainty, ED's products and services answer a need of the market in general, hence the acceptance from different cultures is expected to be similar. Also, the demand is forecasted to be high since it answers actual market trends. Then, the intensity of competition cannot be considered a major threat, since highly saturated markets were not suggested for this internationalization. Finally, the number of relevant intermediaries would not be a problem, since most of the management processes would be carried out in Portugal, thus avoiding communication failures, etc.

In terms of transaction specifics, the tacit nature of know-how should be considered. Therefore, even knowing that ED' international experience is not very meaningful, the company has been practicing exporting.

Ultimately, the desired mode also explains this choice. Since ED does not have economies of scale, exporting will allow to autonomously manage the degree of internationalization along the process. It will be up to ED's managers to decide on how much to export, as well as the number of projects and clients. In order to choose the most suitable entry strategy, three export intermediation options were considered: Indirect Exporting, Direct Exporting and Company-owned subsidiary.

Firstly, direct exporting is the suggested strategy for the purpose of this internationalization process. This means the exporter selling directly to the foreign buyer, while contracting with intermediaries, such as agents in the foreign market. This would give ED maximum flexibility and the risk would be shared with intermediate agents in the foreign market. The level of control involved is low, since the intermediaries would manage the implementation process in the foreign market.

Then, the indirect exporting model implies the exporter to rely on a domestic intermediary (trading company or export management company, for example), that in turn relies on a foreign intermediary (sales representative, broker, foreign distributor, etc.). This one will sell to the foreign buyer. This option was excluded, since it implies even lower level of control compared to direct exporting, having intermediaries carrying out and managing part of the process. On one side, it requires lower level of resource commitment to enter in the new markets, but on the other side, higher intermediate costs will exist. This option has similar flexibility to direct exporting, since in both cases ED could interrupt exporting operations without the need of an exhaustive exit strategy or motive. Finally, it is even less risky, since risks would be shared with the intermediary company. In return, profits would also be shared.

The Company-owned foreign subsidiary model is similar to direct exporting, but in this case the exporter is the owner of the foreign intermediary which will sell to the foreign buyer. This option was also excluded for several reasons. ED would increase the control available over foreign operations but at a huge financial cost, because owning a subsidiary requires more investment and higher resource commitment. Also, this option would be riskier, since ED would be the only ultimate responsible for the expanded operation (even directly, or through a subsidiary, that also owns). Finally, it would decrease flexibility and eventual exit strategies would be more constrained, which is not recommended for a small-scale economy.

#### **d) EDUdigital in the Strategy Diamond**

ED was facing many difficulties with its current operations in Portugal and in the African colonies. The purpose of this international expansion to Sweden was to increase revenues while trying to obtain a higher profit margin on the products. The profit margin the company has in the African colonies is very low because of the low purchasing power in those countries and there are poor economic indicators in those countries such as currency fluctuations and economic crisis. In order to achieve these objectives, there is the need of an in-depth analysis of this expansion to see if it can really solve the current problems of the company and create value to its business.

Regarding the arenas of the strategy diamond, the location of the expansion will be Sweden in the first phase of the process. As the firm gets solid in this market, the strategy will be to move to the other Scandinavian countries which have a very similar culture and market conditions. These countries have a higher cost of living than Portugal what means that ED could sell its product at a higher price, thus, taking advantage of an arbitrage opportunity. Since ED will continue producing its services with Portuguese employees, the production costs will be lower than those of a Sweden based company, assuming equal productivity for the firms.

So, by moving to the Swedish market, the company earns a competitive advantage that it does not have in Portugal, lower production costs than the competition. Also, the Swedish market is more developed in terms of technology than the Portuguese. This means that the company may have some challenges in providing products with the same quality as the Swedish companies. The effort of upgrading service quality will be important to earn clients in that market but also to improve the services sold in Portugal with learning and knowledge sharing. ED will develop new skills in the new market and that can also contribute to improve the firm's position in Portugal by transferring the best practices obtained to their business in Portugal.

The vehicle used by ED in its expansion will be, as it was explained in the previous section, direct exporting. Thus, the company will proceed with the project based on a nonequity vehicle that guarantees high ownership control and low risk on the operations abroad.

ED will face two main competitors in Sweden, Xtractor and Grade AB. When comparing ED to Xtractor, the main differentiator of ED will be the reduced production costs that should lead to a more competitive price. Since Xtractor is a Totara Platinum Partner, ED should focus on selling Moodle platforms because the competitor does not have this partnership and is in a very strong position on Totara platforms. The use of a different open-source technology, Moodle, that is cheaper than Totara, would be another differentiator of ED regarding the LMS segment. Hence, the company should target clients that search for lower cost options because of its cost advantage and the advantage of using a cheaper technology. When comparing ED with Grade AB, the main differentiator is the purpose of the services provided by each company. While Grade AB develops e-learning courses with integrated LMS to increase employee engagement and retention, ED develops e-learning courses for the general development of employees. ED is not only focused on providing courses to increase engagement within employees, it offers a wide range of courses according to the business needs. Hence, ED has a wider range of courses content and production costs advantage.

However, for the specific e-learning courses objective of increasing employee retention and engagement, Grade AB has a more complete and more integrated offer than ED.

About the staging and pacing of the internationalization, Sweden seems a good country for an international expansion in this moment due to its high investment in education and a higher acceptance of technologies in education than in Portugal. The high values in the variables Government Expenditure on Education and Computer, Communications and other Services support this idea that Sweden is an attractive country to export LMS and e-learning courses at the moment. Regarding the pace of the expansion, since the company wants to begin with low risks, the process should be slow. In the beginning, ED should target a relevant but modest base of clients in order to start gaining the capabilities to provide its products there with quality. There will be the need of cooperation between the translation provider, sales agent and developers. The firm should focus on mastering the process that includes these three steps before trying to increase the client base. In order to reduce the risks and the resource commitment, ED should try to operate its business in Sweden remotely as much as possible. As time passes, if demand increases, there may be the need to increase the commitment in the country. This can mean hiring new employees in Sweden or even move from a direct exporting model to a foreign-owned subsidiary.

Expanding to Sweden can contribute to solve two problems the company is facing now, the lack of economies of scale and low profit margin on sales. When internationalizing, economies of scale can arise from the spreading of fixed costs by a larger quantity of services provided. Even though the company does not have huge fixed costs, the international expansion will help in spreading the renting costs of the company's headquarters. However, the internationalization will have a much greater impact on the profit margins due to the higher purchasing power of the Swedish market. ED will be able to increase its profit margin in the services because it can charge higher prices due to the arbitrage opportunity. The costs of

providing the services to Sweden are nearly the same for the LMS Platforms since they do not need translation but, for the e-learning courses, the translation will drive the costs up. Anyway, the higher price charged because of the higher purchasing power in Sweden will offset the increase in costs in the e-learning courses services. Thus, this project will contribute to raise the profit margins of the company, one of ED's current problems. This is one big advantage of this internationalization project to Sweden when compared to the earlier ED's expansion to Africa. African countries have lower purchasing power, so the company had to adjust the prices accordingly and, thus, lowering the profit margins.

#### e) Business Models

Before presenting the chosen business model to move forward with the international expansion, it is worth to explain the one that is the essence of ED's products. The business model is called "digitization" and consists in transforming an existing product or service into digital (Gassman, Frankenberger e Csik 2014). The eLearning courses provided by ED are a digital way of teaching, a service that was normally, before the internet age, provided physically.

There are two other business models that can fit ED service: "Add-on" Model and "Cross-selling". The "Add-on" Model consists in establishing a low base rate for the core product and then adding on various extras at a premium price. The core product is sold at a competitive price and the customizable extras are chosen by the customer according to his needs. This model is typically successful in hard-to-segment markets (Gassman, Frankenberger and Csik 2014) such as the one in which ED is inserted in. ED could use this business model for both LMS and eLearning courses.

The "Cross-selling" business model can improve ED sales and it consists of taking advantage from the relationship created with a client by selling services that complement the ones already sold (Gassman, Frankenberger e Csik 2014). Even though ED's products are not

perfect complements, they can still be combined. The customers have the benefit of not having to search for a different company to provide a complementary product and ED would benefit from selling more products to the same client. It is frequent that clients prefer having an integrated offer with a wide variety of products, and ED has it. To be successful with this model it is very important to guarantee customer satisfaction so that the customers keep interest in ED's products.

#### **f) Conclusions**

When analyzing ED's African Expansion with the original Uppsala Model, there are indicators that the company is in a medium stage of the internationalization process in Mozambique and in an initial stage in Cape Verde and Angola. In Mozambique, the company has higher resource commitment than in the other countries which indicates that it is in a more advanced stage in the internationalization process. However, when considering the work of Autio and Zander (2016), the company can be taking advantage of the internet and communications' networks to avoid unnecessary resource commitment in Cape Verde and Angola. In the project of internationalization to Sweden, the company should focus on providing services remotely, as much as possible, to avoid every needless costs. As supported by Autio and Zander (2016), the lack of resource commitment does not mean that a company is not evolving in the internationalization process, on the contrary, it can be highly effective in using the tools to provide its services remotely.

The entry mode chosen was based on both internal and external factors that affect the firm. Being a small firm and with limited internationalization experience, a low control strategy was chosen as the best option for ED. Moreover, direct exporting is the optimal low control

strategy because of its high flexibility and low level of risk. Hence, the company will start this internationalization project with direct exporting. However, as the project and the company's business evolve, it may be optimal to change for other strategy such as a company-owned foreign owned subsidiary.

Regarding the firm's analysis according to the Strategy Diamond, the arena chosen was Sweden because of the results of the clustering and ranking analysis and, also, because of the arbitrage opportunity. However, as the project develops, this strategy can be replicated to the other Scandinavian countries that have very similar business conditions as Sweden. The differentiators of the company from the Swedish competitors are the low production costs and the use of a different partner for the LMS. ED will mainly use the Moodle platform, which is a cheaper, yet reliable, alternative to the one used by competitors', Totara. About the staging and pacing of the project, the firm is ready to advance at this moment, but the pace should be deliberated and progressive to avoid risks. As stated above, the vehicle will be direct exporting.

Moreover, the introduction of two business models, add-on and cross-selling, were seen as important to improve the firm's results. The add-on model will help the firm attracting customers in the new market and increasing revenues, since the features of the services will be sold at a premium price. The cross-selling business model can help in increasing revenues without the need of searching for new customers. In order to have a successful strategy with this model, ED must have a high level of customer satisfaction.

To conclude, the three frameworks were essential in outlining the international entry strategy of the firm to Sweden. They were complementary in analyzing the characteristics of the firm and choosing from the different possible paths of the internationalization process. The business models will supplement the strategy and help in consolidating the project's viability and the firm's position in Sweden.

## **7. CONCLUSIONS AND RECOMMENDATIONS**

### **a) Conclusions**

#### **Clustering and ranking complement each other to identify the most appealing markets**

The country clustering and ranking analyses were carried out after an extensive research on the best macro and industry-related indicators, which included a preliminary assessment of the level of correlation, that in turn brought the team to exclude several variables. The clustering process led to the division of the countries into twenty-five clusters. However, at a first glance, the countries do not seem to be grouped based on major structural similarities. In fact, the chosen variables are representative of the areas of interest that better suit the goals of this analysis, linked to educational and digital matters. Thereafter, a ranking was performed to complement the analysis and determine the most appealing markets for ED to expand its operations. One of the most interesting key findings was the fact that the countries which ranked among the top 5 belonged to three clusters, with the three highest ranked – Sweden, Norway, and Denmark – being part of one cluster only. This acknowledgement was crucial to support the recommendations regarding a further expansion to other Nordic countries.

#### **Sweden as the most promising market for expansion among the top five countries**

The country ranking process led to the recognition of the five most attractive markets, namely Sweden, Norway, Denmark, New Zealand, and Ireland. A further in-depth country analysis, carried out to detect their main characteristics, allowed the team to delineate thorough profiles of these markets. The alternative options were carefully weighted to make a crucial and thought-out final decision. Sweden was judged as the best choice for ED's expansion due to several factors, including its outstanding performance in social and technological terms, in market and sales potential, as well as trade facilitation due to the existence of important potential contacts.

Nevertheless, the remaining countries are notoriously valid alternatives for doing business. For instance, Norway has a higher GDP per capita, the best scoring for voice and accountability, and a high educational level, however the market is dominated by strong and established competitors. Denmark is also characterized by a highly saturated market, despite ranking high in terms of ease of doing business, while New Zealand ranks first, but it has the lowest market potential score. Regarding Ireland, the low corporate tax attracts investors from all over the world, and this is also why competition is so fierce in the market.

In conclusion, even though competition in Sweden is quite tough as well, the team believes that ED could exploit huge opportunities and position itself as a niche player in this market.

### **Entering Sweden through a low-control strategy of direct exporting**

After electing Sweden as the optimal market for ED to internationalize its business, in this first phase, it was necessary to specify how the market entry should proceed. Therefore, ED was advised to go through a low-control strategy, due to its limited international experience and financial availability, that determined the need of choosing a strategy with low associated

risk and maximum flexibility and autonomy. More specifically, the team suggests that the company should directly export its products to Sweden, even considering that this would imply a low level of control over foreign operations. This decision was based on internal and external factors, particularly in the fact that ED is a small-size company, with limited resources, negligible learning from previous expansions, but with an offer that answers relevant market needs, being thus expected to conquer the increased demand in Sweden. Furthermore, it was also considered the desired mode of the company and some transaction specificities. In this regard, the company does not have economies of scale, and so exporting will allow to autonomously and gradually manage the number of international projects embraced, according to its structure, resources, and human capabilities.

### **The *Add-on* and the *Cross-selling* business models should drive the international expansion process**

When entering the Swedish market, the team suggests ED to implement both the *Add-On* and the *Cross Selling* business models. The former will require the company to establish a lower price for the base product or service, and then sell various extras at a premium price. On the one hand, the competitive price of the core product will enhance market penetration, while attracting new clients. On the other hand, the fact that the additional features will be sold separately will allow the clients to choose them by their needs and budget. Furthermore, the *Cross-selling* model will allow to increase revenues over the years, without depending on an increased customer base. This model predicts that the company's customers will be prone to buy complementary products or services after being satisfied with an initial purchase.

### **Essentials of the marketing plan and objectives**

The marketing strategy has been formulated taking into consideration the importance of fitting the firm, the industry, and the characteristics of the related products and services. After the segmentation of the market into five subunits based on geographic, firmographic, buying behavior and benefits sought criteria, the team concluded that ED should only focus on the most appropriate groups, namely large and medium-sized corporations, and universities. In terms of positioning, ED's goal must be to keep being perceived as a relatively small provider of good value for money services, that are complemented by a centralized, hence efficient, customer support. Therefore, the company should align marketing efforts to this brand image, while striving to absorb constant direct and indirect feedback by Swedish consumers.

A key driver for ED's success is pushing on its unique selling proposition, that is differentiated from the existing competitors, due to its extreme degree of customization. The best short-term plan would be to mainly offer eLearning courses and *LMS*, which represent the greatest proportion of revenues due to their high demand. The suggested pricing scheme has been defined according to the *Add-on* and *Cross Selling* business models standards, together with the existing pricing strategy.

Distribution channels are to be kept to the strict minimum, to avoid unaffordable expenses for intermediaries, that would not add enough value to be justified. The company could benefit more from selling directly to consumers, since ED's service features make it possible to operate remotely. However, a vehicle for brand awareness and gathering new clients would still be to physically attend fairs and conventions, whenever possible. Promotion should be also made through an upgraded website, online advertising channels and local sales agents, following a pull strategy, to inform potential customers of the economic benefits in the first place.

What has just been said is perfectly in-line with the following micro-objectives: to acquire and retain customers, to promote brand awareness, and to increase digital presence.

Achieving these targets would eventually lead to the accomplishment of the macro-objectives set at the start of the process, namely increasing sales, and maximizing profits.

**Financial Forecast based on the most accurate assumptions for both revenues, expenses, and discount rate**

A Financial Forecast was computed for the next 5 years, based on the company's performance in the home country, in the last year. The revenue for the first year of operations was computed, by assuming that the company will reach 7 Swedish clients – as the market and sales potential calculations suggested –, who will have an average consumption aligned with the one of the Portuguese clients, and consumption will be adjusted to differences in the price levels. However, some special considerations were taken to reflect both the positive impact on revenues of the marketing efforts, and the lower prices that should be practiced upon entry into force, as the *Add-On* business model advises. In further accordance with this model, each client is expected to pay for upgraded and more expensive features of the products in the upcoming years. In addition, the Cross Selling business model also led to the assumption of increased revenues over the years, as the clients buy more products and services, after being satisfied with the former.

Furthermore, the assumptions on costs for the financial forecast include the personnel expenses, supplies and external services, and marketing expenses. Personnel expenses is multivariate caption that includes base costs, sales agents, flights, new employees, and food and accommodation costs. The base costs constitute the cost related with the time that current employees will need to dispend on this internationalization project. Also, it was assumed the average cost of hiring one new sales agent, who will be the responsible for representing the company overseas. The assumption on the number of flights was made based on the expected yearly trips to Sweden, thus five in the first year and three in the following, that the company

should achieve to demonstrate customer care and build new relationships. Moreover, in accordance with our previsions of new clients, ED should also hire more employees to deal with new projects in Sweden. These employees include an IT specialist and a designer in the first year and a project manager in the second year of the internationalization. The food and accommodation costs are the last variable of the personnel expenses caption and it includes the costs of business trips related to food and accommodation.

Regarding supplies and external services costs, there are two variables affecting it: cloud server costs and outsourced costs. The cloud server costs were predicted according to the partnership with *PTisp*, that allows for a server management according to the clients of the company. The outsourced services costs have two different components. One is the base cost, which includes general external services costs that may arise with the implementation of the project. The other is the translation costs that will be required for translating the website, the e-Learning courses, and flyers with ED's products to Swedish.

Marketing expenses include the costs of going to business fairs, namely renting the space plus designing the stand. Also, it comprises the online advertising costs in Google Ads and Facebook ads. The company already uses these platforms, but it is important to advertise in Sweden too, and that is why we assumed an increasing in the costs related to advertising. The last variable of the marketing expenses caption is related with the flyers and catalogues printing costs, to have updated and appealing materials to give to the potential customers.

The results of the capital budgeting analysis stipulate three scenarios which can be summarized in **Table 7.1**.

	<b>Positive scenario</b>	<b>Normal scenario</b>	<b>Negative scenario</b>
<b>WACC</b>	9,0%	10,5%	11,5%
<b>Revenue Annual Percentage Increase</b>	23,9%	19,0%	14,1%

<b>NPV</b>	32 862 €	15 963 €	299 €
<b>Payback Period (y)</b>	3,00	3,43	4,30
<b>Discounted Payback Period (y)</b>	3,13	3,72	N/A

*Table 7.1: Positive, Normal and Negative scenario's results*

## **b) Recommendations**

**After Sweden, expanding to the remaining Scandinavian countries (Norway and Denmark) would be a smooth process**

As previously explained, the top three countries in the ranking turn out to be part of the same cluster. On top of that, Sweden, Norway, and Denmark have strong cultural, historical and linguistic ties binding them together into a single Northern Europe subregion: Scandinavia.

Given the structural similarities, and the fact that their markets appear to be as the most attractive for doing business, it should not be surprising that the team would encourage ED to think about going further. After all, if the Swedish expansion is successful, moving to the surrounding countries will be a smoother process. ED could benefit from a huge increase in sales and profits by simply transposing the strategy already implemented in the Swedish market to Norway and Denmark. However, a new financial forecast would have to be prepared to assess the actual feasibility of this extension from the original plan.

**Follow-up the investment on brand management to become an internationally recognized brand**

As a business matures and grows, the need of brand investment increases and becomes more important to differentiate from competitors. As previously analyzed, ED does not have a sustainable competitive advantage, and therefore growing brand awareness can offer a solution

as a single characteristic to differentiate from other competitive offerings that might arise (Kotler, and Pfoertsch 2006). ED's brand must translate the company's identity and vision, aiming to enforce trust and confidence among customers, partners, and potential investors. Moreover, it will contribute to become the top of the mind company and a reference when it comes to *LMS*. Finally, it can bring other benefits, such as the attraction of talented employees, or a decrease of the client's price sensitivity, for instance.

### **EDUdigital's final readiness for the expansion (based on the financial forecast)**

According to the financial forecast, the NPV of this internationalization project is positive, meaning that the company should indeed expand to Sweden. All three scenarios obtained show that the project will be profitable, as it is reflected in **Table 7.2:**

	<b>Positive scenario</b>	<b>Normal scenario</b>	<b>Negative scenario</b>
<b>NPV</b>	32,862 €	15,963 €	299 €
<b>Average NPV</b>	16,375 €		

*Table 7.2: Positive, Normal, and Negative scenarios' NPV*

Investing in this expansion will result in a creation of value beyond the result. Furthermore, all three scenarios present positive results, which means that, in accordance with the calculations, ED should undergo the necessary steps to do this project.

Moreover, beyond the calculations of free cash flows obtained by the capital budgeting analysis, such a project will help boost ED's reputation. ED can leverage its reputation and increase its negotiation power, reach more clients, and make more profitable deals. The fact that ED is a heavily digital and technology-oriented company makes online reputational even more detrimental for the success of the firm (Worthy 2020).

There are, however, some limitations in this analysis, which must be recognized. Such limitations are related to the assumptions made, since using an unprecise cost of capital can hurt the validity of the investment decision (The Motley Fool 2015). To relief the potential problems resulting from this limitation, three WACC values were chosen, which helped to create a sensitivity range.

It is also understood that most of ED's investments and future investment decisions are not discretionary, but necessary to stay in business. In other words, due to the nature of the business and due to how young ED is, it is difficult to forecast future cash flows as easily as an established company such as *3M* company or *Coca Cola*. The recommendation here is for ED to rely on this capital budgeting analysis and to avoid the sole reliance on "gut feel" or the payback period analysis (Danielson and Scott 2006).

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## APPENDIX

*Table 1.1: Employees' structure and respective roles*

Country	Role	Employee name
<b>Portugal</b>	Head of IT	Eduardo Perdido
	Head of Business Development	Carina Brito
	Multimedia & Web designer	Francisco Almeida
	Web Developer	Patrícia Jesus
	Instructional Designer	Mafalda Sequeira
<b>Cape Verde</b>	Project Manager & Multimedia designer	Helder Silva
	Web Developer	Edino Costa
<b>Mozambique</b>	Business Developer	Ernesto Matimbe
	Senior Project Manager	Abiatar Fernando
	Multimedia and Web designer	Miguel Ginge
	Web Developer	Victorino Machoco

*Table 1.2: Reformulated Income Statement from 2016 to 2019*

	2019	2018	2017	2016
<b>Core operations</b>				
<u>Total Revenues</u>	201 560 €	165 803 €	167 385 €	118 890 €
Supplies and external services	- 135 590 €	- 104 851 €	- 83 681 €	- 46 071 €
Cost of sales	0 €	- 1 236 €	- 8 565 €	- 5 794 €
Exploration subsidies	28 383 €	43 682 €	3 480 €	4 075 €
Personnel Expenses	- 80 064 €	-87 840 €	- 70 217 €	- 63 319 €
Depreciation and Amortization	- 6 130 €	- 6 130 €	- 6 869 €	- 6 011 €
Result before taxes	8 158 €	9 427 €	1 533 €	1 771 €
Taxes	- 4 304 €	- 4 808 €	- 1 151 €	- 1 263 €
<i>Core result</i>	<i>3 854 €</i>	<i>4 620 €</i>	<i>382 €</i>	<i>509 €</i>
<b>Non Core operations</b>				
Other income	46 €	1 615 €	3 426 €	2 727 €
Other expenses	- 3 042 €	- 3 665 €	- 2 273 €	- 744 €
Interest income	122 €	211 €	411 €	555 €
Result before taxes	- 2 874 €	- 1 838 €	1 564 €	2 538 €
Taxes	1 516 €	938 €	- 1 174 €	- 1 810 €
<i>Non Core result</i>	<i>- 1 358 €</i>	<i>- 901 €</i>	<i>390 €</i>	<i>729 €</i>
<b>Financial</b>				
Interest expenses	- 149 €	- 220 €	- 270 €	- 61 €

Result before taxes	- 149 €	- 220 €	- 270 €	- 61 €
Taxes	79 €	112 €	203 €	43 €
<i>Financial result</i>	- 71 €	- 108 €	- 67 €	- 17 €
<b>Net result</b>	<b>2 426 €</b>	<b>3 611 €</b>	<b>705 €</b>	<b>1 220 €</b>

*Table 1.3: Reformulated Balance Sheet from 2016 to 2019*

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Core business</b>				
Cash and Cash Equivalents	21 057 €	115 900 €	81 477 €	82 727 €
Property, Plant and Equipment	884 €	7 014 €	13 144 €	18 733 €
Intangible Assets	943 €	530 €	530 €	- €
Accounts Receivable	99 329 €	64 598 €	91 844 €	29 006 €
Prepayments	897 €	- €	- €	- €
Prepaid Income Tax	0 €	1 283 €	3 078 €	5 102 €
Deferred Assets	183 €	468 €	0 €	0 €
Accounts Payable	- 17 166 €	- 4 225 €	- 25 802 €	- 24 433 €
Current Tax Payable	- 9 919 €	- 12 151 €	- 5 231 €	- 4 555 €
Deferred Liabilities	0 €	- 9 760 €	0 €	0 €
<b>Core Invested Capital</b>	<b>96 207 €</b>	<b>163 658 €</b>	<b>159 041 €</b>	<b>106 581 €</b>
<b>Non Core business</b>				
Financial Investments	0 €	0 €	0 €	149 €
Other Current Assets	9 333 €	16 288 €	569 €	15 €
Other Payables	0 €	- 10 122 €	0 €	0 €
Other Current Liabilities	- 9 672 €	- 110 101 €	- 21 157 €	- 21 617 €
<b>Non Core Invested Capital</b>	<b>- 339 €</b>	<b>- 103 935 €</b>	<b>- 20 587 €</b>	<b>- 21 453 €</b>
<b>Financial</b>				
Long-term borrowings	- 36 188 €	0 €	- 84 810 €	- 32 189 €
Loans and other borrowings	0 €	- 2 468 €	0 €	0 €
<b>Net Financial Obligations</b>	<b>- 36 188 €</b>	<b>- 2 468 €</b>	<b>- 84 810 €</b>	<b>- 32 189 €</b>
<b>Equity</b>	<b>59 680 €</b>	<b>57 254 €</b>	<b>53 643 €</b>	<b>52 939 €</b>