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**NUBANK: REVOLUTIONIZING THE BRAZILIAN BANKING INDUSTRY BY
FIGHTING COMPLEXITY**

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Introduction

Almost 30% of the Brazilians remain unbanked (circa 60m people). And for the people who can afford to access financial services, the experience can be daunting. People have to commute for hours using public transportation to get to a branch, working hours are very restricted, often leaving customers waiting for it to open. When a branch does open, one goes through bulletproof revolving doors with armed guards pointing guns, and all belongings have to be left in lockers outside. Banks force people to go through this multiple times per month, turning simple routine operations into an uncomfortable experience (Marques 2021). This is exactly what David Vélez experienced when trying to open a bank account in São Paulo. Now, more than 8 years later Vélez has revolutionized the Brazilian banking industry creating the biggest digital bank in the world with a current valuation (Nov. 2021) of US\$ 30bn and backed by iconic venture capitalists (VCs) and investors such as Sequoia Capital and Warren Buffett (Figures 8, 9 and 10). After an explosive growth during the pandemic due to demand for more digital payment services, Vélez prepares himself for the venture's IPO planned for Dec. 2021 raising at least US \$3bn at a valuation of circa US \$41bn. He starts the board meeting to discuss Q3 2021 results with 1 minute of meditation to make sure everyone is present in one of the most important discussions of the year. The results were promising and Nubank has reached 45 million customers in Brazil just after closing a US\$ 750 million Series G round of funding. As the discussion reaches the IPO topic and the market analysts feedback, Vélez is surprised to hear that the feedback of the market is that Nubank's valuation is not adequate due to uncertainties such as the competitive response by the incumbent banks and the increasingly competitive landscape that is booming with new FinTechs.

Brazilian banking system structure & main players

Brazil's banking system has long faced criticisms of poor service, long wait times, labyrinthine bureaucracy, and high fees. This - along with the prevalence of informal work - helps explain why some 60m of Brazil's 210m people do not have a bank account, making it difficult for them to access credit or a means of saving (Chu, Larangeira and Levindo 2020).

In 2018, the industry with deposits of US\$1,729bn and a loan portfolio of US\$949bn posted new profits of \$19.6bn. The country had 172 commercial banks but the industry was dominated by five market leaders: Itaú, Bradesco, Santander Brasil, Banco do Brasil and Caixa Econômica Federal which together held 80% of all bank assets, 83% of the country's deposits, were responsible for 82% of all credit operations and issued 80% of all credit cards (Chu, Larangeira and Levindo 2020).

The market leaders offered few credit options to consumers and small and medium-sized firms, with interest rates charged being among the world's highest, e.g 272% for credit card indebtedness (Chu, Larangeira and Levindo 2020).

With little consumer choice, banks have been able to set the parameters most favorable to them: high fees and rates, confusing loan terms, and sometimes mediocre service. According to Lindsay Davis, "In Brazil – like in many other emerging markets- banks did not have to stay competitive thanks to years of monopoly. After all, customers did not really have anywhere else to go." (Fowler 2019).

Building Nubank - “Brazil is not for beginners”

In the summer of 2012, David Vélez, a recent Stanford MBA and partner at Sequoia Capital, moved to São Paulo after the venture firm wanted him to lead its expansion to Brazil. Just a few months later, Sequoia decided to back on its initiative after a few uninspiring pitches from Brazilian entrepreneurs and hearing that one of the top-ranked universities had produced only 42 computer science graduates the year before. Vélez was devastated but he also saw the lack of Brazilian innovators that had turned Sequoia off, as an opportunity for pursuing his dream to launch his own venture. According to Vélez, “You want to position yourself on the side of the market where there’s scarcity.”. “In the U.S., there’s an oversupply of good entrepreneurs. Somebody with my experience and background is a commodity. In Latin America, there was significant scarcity.” (Fowler 2019).

After a traumatic experience in the Brazilian banking system, Vélez had a target: Brazil’s big incumbent banks. His idea was simple: to offer a no-fee account and credit card, welcoming the largely ignored Brazilian unbanked population after they answered a few simple questions via an app. It was a revolutionary service since historically banking services in Brazil have been marked by complex bureaucracy and screening processes for opening an account or performing transactions.

Of course, revolutionizing the Brazilian banking system would not come without its challenges. All the experts in the industry told Vélez “You are a foreigner [...]. Nobody competes with the five banks that own the market. They are going to crush you”. Vélez was aware of the risks involved in targeting a potentially risky customer base, relying on Brazil’s poor tech infrastructure and defying the country’s banking oligarchy (Kauflin 2021). But industry experts underestimated

Vélez who, as a Colombian raised in Medellín, was far from being an outsider to the challenges of making business in LatAm; and combined with his previous experience in the Silicon valley and connections made over the course of his career in the U.S. However, he was aware of his blind spots in terms of technology and of market knowledge, especially in Brazil. So, he built a team that would help him to cover them.

His first co-founder was Edward Wible, a computer scientist who spent most of his career in private equity and would take the role of CTO. Lacking the knowledge of Brazil and its banking system, Vélez found the last co-founder in Cristina Junqueira, an ex-strategy consultant who worked as a project manager at Itaú's consumer loan and credit card business. During her time at the bank, she thought the business model was flawed with high fees and confusing communication which led her to propose a more innovative model which was shut down by her boss at the time.

The timing was perfect, with the cost of technology just starting to come down and better access to Wi-Fi. Meanwhile, venture capital was starting to pour into LatAm, and consumer demand began to put pressure on governments to foster a more competitive banking market (Chu, Larangeira and Levindo 2020). Until recent years, banks run by foreigners could not establish themselves in Brazil by law, and according to Eduardo Dotta, professor at Insper, a Brazilian higher education college, the Brazilian environment only allowed the rise of fintechs thanks to a "regulatory revolution" (Bloomberg Linea Brasil 2021). The game changers were the "Payment Institutions" Act of 2013, the resolution 4.656/2018, and the presidential decree of 10.029 in which the Brazilian government would simplify the structure for offering payment services and banking licenses to foster competitiveness (Bloomberg Linea Brasil 2021). Furthermore, the lower-income population was suffering from the scarcity of credit lines created during Lula's

government (2003-2010) and significantly reduced during Dilma Rousseff's (2011-2015) government. In addition, a recession and higher employment rates triggered by the commodities crisis were reinforcing even more the demand for cheaper credit options.

Nubank's Strategy - A flawed banking system

Brazil makes for the perfect market to be disrupted as it was covered in speculation, poor customer service, and general frictions across many different services.

It was the system's flaws that laid the foundation for Nubank to win the market by addressing the main pain points that the incumbents were able to neglect up to that moment.

As it might be expected, the banking industry in Brazil is not among the most loved ones. Within this context, the first challenge was to "rebuild the concept of a bank in a country where banking is widely hated [...]" (McCarty 2021). The long-term goal is underpinned by tackling one by one the issues the incumbents were not able/incentivized to solve: 1) optimization of costs & (a digital) customer experience, and 2) consistent delivery of quality products. Below we will explore a few of the above pain-points Nubank has been focusing on.

Customer-Centric Revolution & Experience

In LatAm, there is an increase of tech-savvy, phone-owning young population (e.g. under 25), with Brazil alone representing the second-largest market for WhatsApp with 120m users globally (Dean 2021).

It comes with little surprise that Nubank has been customer-obsessed since day 1. Without the burden of physical branches and little capital deployed towards marketing, it decided to invest heavily in in-house customer service. Research by Gartner (Pemberton 2018), has shown that there are two main reasons why this is so important in banking. Firstly, high-quality Customer Experience (CX) has become the new standard battlefield for companies that try to create a differentiating factor. Secondly, a better CX is directly linked to higher retention rates. Nubank presents itself as a diverse and young (tech) company for everyone where employees are encouraged to embrace who they are. A few key characteristics of Nubank's approach are:

WOW: which is when the CX experience, which is high-quality to start with, goes above and beyond expectations. Usually involving a physical present sent to clients. For instance, after a client's dog had bit the credit card. Employees at the bank decided to pool money and send a dog bone. Most recently, Nubank created a partnership with Zee.Dog, a brand for dog accessories to gift clients with a toy for their dogs, is called NuDog (see *Figure 6*) (Nubank 2021; Mattos 2021).

Xpeer: a nickname for the people who work in customer service at Nubank. It comes from the combination of two words "experiência" ("experience") and "peer". Every employee is assigned to a different *squad* (i.e. team) and takes care of a specific product. The recruitment process is very selective, and once a candidate is onboard they go through a thorough process followed by a number of events and forums where best practices are shared and they have a chance to connect with their colleagues as well as get closer to top management through a series of talks, etc. (Nubank 2019; Freitas 2018).

On an organizational level, the Xpeers have assumed a key role in the company as the specialists in customer success and in making the company's mission of empowering people through reduced

complexity into reality. Unlike traditional banks that outsource their customer service, Nubank has put the Xpeers into the center of the digital banking revolution, leveraging their direct and quick access to customer feedback to constantly adapt its products to market fit. Furthermore, the company is organized in agile cross-functional teams from the product, Xpeers, design, engineers focused on solving problems. Nubank builds its team with a diversity of nationalities and backgrounds to make sure that its products will be reviewed by the most diverse group of people that will be able to give different perspectives of improvement points (Mari 2019).

Nubank's App: Until recently, the majority of banks in Latin America did not have a mobile app for banking services, let alone a good one. User experience (UX) and user interface (UI) have changed dramatically over the last couple of decades across the board, and the banking industry is no exception. Having a powerful UX is what allows customers to have a sleek, simple, and intimate journey, which will, in turn, improve retention levels and help bring in new customers (see comparison in *Figure 2*).

Rethinking Credit & Providing Accessibility

Another big problem was credit. How does one build a bank whose main product is a credit card when most people do not qualify for it based on their income?

Historically, Brazil did not rely on a credit score system, rather each lender used to assess potential borrowers based on their own criteria. In 2012, with new rules to create dedicated bureaus for score rating. Only in 2016, the five biggest banks set up, in a joint effort, a credit research company. In recent years, international companies like Fico or Experian Plc. have opened

offices in Brazil. Nowadays, the credit score calculation relies on the length of credit history, and the amounts owed among others. (FICO 2021; IFR 2016).

Nubank challenged the traditional credit assessment assumption, allowing itself to provide its services to a much larger number of people. They rethought credit by 1) creating their own credit score. This meant that they were able to factor in countless variables and be more flexible when it came to assessing the profile of their customers. 2) since the country had a substantial number of unbanked people, Nubank decided not to deny them their service. Instead, they began offering them low credit, analyzing their behavior ultimately being able to adjust the level of credit offered accordingly. According to Vitor Olivier, one of the first 10 employees at the bank, for 20% of the company's new customers, their product was their credit card ever (Chu, Larangeira and Levindo 2020).

Product Offering

Nubank started its journey by being a one-product company (i.e. credit card) and has been able to build along the years a well-diversified portfolio of financial products - spanning from investments to checking accounts, and from personal loans to business accounts.

Credit Card

The first product the company decided to offer was a credit card which can be justified on several grounds. From a legal standpoint, the choice was strategic as credit cards were one of the few products with no ownership restrictions, at least at the time when Nubank was created. From a purely strategic perspective, the model of credit cards was very well established in the country and allowed Nubank to reach a vast customer base (McCarthy and Sciarretta 2021). The winning

characteristics of the product were spread across two main verticals, 1) business model & costs, minimal maintenance costs, and 2) fully digital, very easy to set up, and accessible via an app. For more details, please refer to the below table (Chu, Larangeira and Levindo 2020; McCarthy and Crichton 2021).

Business Model & Costs	Digital	Others
<ul style="list-style-type: none"> Very low credit lines (circa USD\$10 per month) allowing for broad penetration of the market 	<ul style="list-style-type: none"> Ease of setup combined with basic requirements (see figure 5) 	<ul style="list-style-type: none"> Psychological effect created by being limited to a certain number of people at the beginning
<ul style="list-style-type: none"> No annual fees to be paid 	<ul style="list-style-type: none"> 100% manageable through the digital app 	<ul style="list-style-type: none"> Bold color (nuance of purple) – based on a research suggesting it as the color less associated with credit card by people
<ul style="list-style-type: none"> Proprietary scoring system allowing the company to provide services to more customers 		

Nubank’s Credit Cards

Nubank offers its customers access to three types of credit cards. The Gold credit card has no fees and benefits are connected to purchases made through the credit card, such as extended guarantee for products purchased, insurance for price protection, and discounts in purchases with companies that are partners of Mastercard. The platinum credit card’s benefits are connected to traveling such as travel consultant to help in booking hotels with exclusive conditions like free upgrades, travel insurance (medical & automotive), concierge service of a 24h support to help with tickets for concerts, flights, and restaurants and international cashback offers for selected partners. Lastly, Ultravioleta is Nubank's premium credit card targeting Brazilians in higher income levels launched in July 2021 to compete with digital banks such as BTG+ that have a robust high-end offer targeting this customer base. It provides instantaneous cashback of 1% that does not expire and all the benefits with Mastercard Black such as access to VIP rooms and free Wi-Fi in any

airport in Brazil and travel insurance options. The monthly fee is R\$ 49 (US\$ 8.7) unless the client's monthly expenditures with Nubank's credit and debit card exceed R\$ 5k (US\$ 890) or the client has at least R\$ 150k (US\$ 26K) invested with Nubank. Nubank's goal with the Ultravioleta card seems to be to retain the transactions of high-income clients that are already using Nubank's services (Futema 2021). Brazilians have multiple accounts in different banks for different purposes (e.g. one for personal investments, one for salary, etc). Nubank's goal is to become a one-stop-shop and the primary bank of its clients and that's why one of the requirements is that the client needs to have R\$ 150k invested with Nubank.

Savings Account

"NuConta", i.e. Nubank's very own savings account was the second product the company brought to the public. Once again, the key to its success was simplicity and convenience.

Hassle-free fixed-rate account. Account-holders can forgo the stress of choosing where to invest their money, Nubank allocates it for them based on their profile. **No fees.** Nubank does not charge its customers any fees to set up their accounts or to maintain them. In addition, no fees are associated with holding a debit card (or credit) or transferring money. **Debit Card Optionality.** The account was a standalone product however, should the account holder want to, they could get a debit card with it which would have similar features to the credit card. **Cash Withdrawal.** Nubank allowed its customers to withdraw, up to a certain limit, from more than 25k ATMs. Something that was unprecedented.

After two years from launch, Nubank had 10 million customers who loved the product and were extremely dissatisfied with their previous banks (McCarthy and Sciarretta 2021).

Peer-to-Peer (P2P) Transfers

Worth noting the importance of peer-to-peer (P2P) transfers. Until then, Brazilian customers had access only to a certain number of free peer-to-peer transactions per month, and usually, each transaction was associated with a fee. The Brazilian Central Bank (BCB) created Pix, a system to support instant payments allowing real-time and free-of-charge transactions (Fintech Brazil 2019; Fabro 2020). Nubank strategically chose not to create such a feature in-house, especially after seeing the huge success the service had. Instead, the company chose to opt for a partnership allowing for Pix transactions to take place within their app (see *Figure 1*).

Life Insurance

At the end of 2020, Nubank announced "Nubank Vida". The new life insurance product is launched in partnership with Chubb, one of the largest insurance companies in the world. The product will allow Nubank to extend its array of offers and will be key to entering into another core financial services area.

Business Banking

The business account was one of Nubank's most requested products, aimed at servicing small and midsize businesses (SMB). The product has many similarities with the other ones offered by the company, e.g. fee-free, free transfer, etc. The main differentiator is that it helps entrepreneurs to manage all their billings through the app.

Consumer Loans

In 2021, Nubank partnered with Creditas, another fintech startup based in Brazil, to bring to its customers' personal loans (Finextra, 2021). This product is very simple, with interests between 2% and 5% per month, and the customer will be able to simulate the loan request in advance, after contraction, the money will be transferred immediately to the client's account.

Nubank's "one-stop-shop" approach for removing complexity

Before Nubank, individuals with an account at Bradesco that needed a personal loan had to go to their specific branch, queue sometimes for hours and talk to their personal account manager, fill in a number of forms and wait for days for approval. Similarly, if an account holder from Itaú lost their credit card, they would have to go to their branch and again queue, talk to the manager and wait for days until the new one arrived. On the personal investments side, only "premium" clients with an average income higher than R\$5k a month, had access to exclusive services and advice from their manager towards suitable investment funds for their profile. In 2013, the digital services incumbent banks offered were mostly access to their website in which clients could only transfer small amounts, pay utility bills and get extracts from their balance. There was no app and for more complex operations clients either had to go to an ATM of a branch or speak in person with their account manager. Most of the incumbent banks, just like Nubank, had in their product portfolio personal loans, life insurance, credit card, and business accounts. The main difference, as a customer, lay in the complexity of accessing a wider range of services provided by the bank without incurring lengthy processes which ultimately resulted in a disconnected and unpleasant overall customer experience.

Nubank's product offering was ground-breaking because it tackled the major pain points in the consumer journey with incumbent banks. The company's proposition was aimed at reducing complexity for its customers through no fees for credit cards, smaller interest rates for personal loans, simplified processes for adding new services to clients' packages, and fast approval processes for account opening and adherence to new services. Ultimately, the removal of extra layers of complexity helped consolidate Nubank as a one-stop-shop with a convenient and integrated portfolio of services. And more importantly, by tackling the pain points not only of the unbanked, Nubank's primary target customers, the purple digital bank managed to expand its customer base across different income levels penetrating the middle and higher classes.

The incumbents' response to Nubank

Since it was founded, the Brazilian banking landscape has undergone several changes. The company has set new industry standards, which led to the institutions dominating Brazil's banking losing more and more customers to digital native banks, with hefty repercussions on their balance sheets -with an estimated loss from fees in 2022 is R\$16bn (c. \$2.9bn) (Pooler 2021).

However, incumbent banks have tried to adopt a range of approaches from launching their own digital banks (i.e. building in-house capabilities), acquiring stakes in startups, and operating a cost-cutting strategy including closing branches and downsizing the workforce.

Bradesco. In October 2017, Bradesco created Next, its digital bank. The website presents little to no mention of its parent company, and it has a completely different visual identity crafted to target the Brazilian millennials. Next's mission, similarly to Nubank's, is to simplify its clients' lives and its product offering goes from financial, e.g., personal loans, credit cards, and investments, and

non-financial, such as benefits. Bradesco also acquired D1 and Smarkio, startups focused on customer service which leverages artificial intelligence (Sakate 2020; Epoca Negocios 2020).

Itaú. Itaú created its digital bank Iti, in 2019 with similar products as Bradesco such as savings account, personal loans, credit and debit cards, and discounts with brands. The company has increased its customer base to 10m customers, despite not having made any significant acquisition or having introduced new particular services (Alves 2021).

BTG Pactual. Although it cannot be considered a traditional incumbent, given its position and focus as Latam's biggest investment bank, it is seen as Nubank's biggest competitor. In 2021, it launched BTG+, targeting Brazilians earning over R\$5k (\$890). The company differentiates itself by leveraging on its wealth management expertise in servicing high net worth individuals to create Brazil's first boutique digital bank. Its product offering is very similar to Next and Iti with the main difference being the use of tiered fees and associated premium services. For instance, by subscribing to the *premium plan*, for R\$30 (US\$5.3) clients have access to exclusive services such as domestic worker management (assistance to clients in managing taxes and labor benefits for their domestic workers), Chefsclub subscription to get discounts in the best restaurants in the country, and invest+ in which BTG+ deposits a part of the clients' expenditures with credit cards on an investment fund of the client's choice.

Not all incumbents have behaved the same, with Caixa Econômica Federal and Banco do Brasil, both state-owned, showing slower responses.

The new digital banking environment is more competitive than it was when Nubank was created, with incumbents and other players stepping up their game to respond to shifts in consumer demand and expectations.

Nubank's IPO - hit or flop?

As people avoided traveling to crowded banks or taking public transportation during the pandemic, the demand for easy and convenient digital services increased - boosting Nubank's customer base to 48m customers (Curry 2021). If in Q3 2021, analysts were doubting the adequacy of the valuation for the approaching IPO, Velez and team now stand in Q4 2021 analyzing their results. Now the market sentiment is more positive, mainly thanks to Nubank's strategy execution and results, the company posted in Q4 2021 its first profits, currently based on charging merchants from transactions. But there are still questions around how the company will hold with the upcoming external pressures, which traditional institutions, now launching their own digital ventures, have been dealing with for the past decades. In addition, the competitive landscape is ever-evolving with many other digital banks rising which could pose serious challenges to Nubank. How will Nubank keep its competitive advantage and be able to justify its \$41bn valuation through posting appealing results for investors in the coming years?

Teaching Notes

Synopsis

The case explores the birth of Nubank and the Brazilian market conditions in which it developed, from 2013 until now, and with an eye to the future IPO. In this case, there is a focus on the characteristics, which beyond the market conditions, made the company so successful - in particular, the product, and the culture. After analyzing the competitors' response to the new standards set by Nubank and its peers, the case highlights the effects the pandemic has had on the company as it looks at the future.

Teaching objectives

The case can be used in a class to discuss building and sustaining competitive advantage within the context of startups and innovation. Nubank is a very clear example of a disruptive company that has been consistently expanding its competitive advantage not only against the incumbent dinosaur banks but also the new entrants (e.g. fintechs and digital banks). The real question is whether the company's strategy and organization are enough to sustain its competitive advantage in the long run, under an ever-changing market. Specifically at the end of the class students should be able to understand: drivers of successful innovation, challenges faced by scaling startups when incumbents imitate the startup strategy and business model, and dynamic capabilities.

Assignment questions

- Why has the problem Nubank is addressing not been solved before?
- Is Nubank growing too fast?

Teaching Plan

PART I | Building Competitive Advantage

Section I | Resources and Capabilities - Company, Product & External environment Analysis

This section will explore the drivers of successful innovation and the resources and capabilities Nubank possesses by analyzing 1) the company, its product(s), and the relative external conditions, and 2) the importance of the team, especially in the very early stages of the company.

1. Why do you think Nubank became popular so fast?

The case discussion should be opened by this very broad question in order to stimulate a brainstorming exercise for students. This part should have little supervision/direction from the

perspective of the instructor. Students should be able to come up with a lot of different ideas which the instructor should write on a whiteboard. Should comments come up about timing and the underlying conditions of the Brazilian tech ecosystem they should be downplayed to steer the conversation towards internal company factors (i.e. team, product, etc.)

By the end of the conversation, there should be three main areas to explore, i.e. the team, the products, and the customer-centric aspect -- there can be more but the discussion should focus on those three. In this part of the discussion the team should not be analyzed in detail as there will be a question focused on it later on - the instructor should acknowledge the fact that the team has indeed played a role in the development of the company but will not go too much into detail here

Following this, the discussion should be around product first - the instructor could ask someone who has mentioned product quality in the previous exercise to give more color into what they think makes the product special.

There can be a lot of reasons as to why a product works better than the competition but within the startup's ecosystems it usually boils down to two things: “10x better and 10x cheaper” as Sarah Tavel from Benchmark put it. This means that in order to win, companies need to develop a product offering that is very compelling to customers (in this case it is about convenience, easy access through their app, etc.), **and** that is also 10x cheaper than the current offering (reshuffling the cost structure of the company). Give students other examples of this, e.g., why do you use Uber? Because it’s efficient and cheap.

Then the discussion should briefly hover over the importance of customer service which ultimately drives product innovation. The more data and feedback from customers the more Nubank is able to iterate on their products by adding additional appealing features. In addition, the

seamless processes, analytics-driven, and customer empowering have helped Nubank retain and grow its customer base thanks to referrals and word of mouth.

So far, the case has been focused on internal aspects. Now, the case is moving into the external conditions that allowed Nubank to flourish.

Touch on the underlying conditions which allowed for such an ecosystem (and consequently Nubank) to develop - mainly (see table below)

Legal	<ul style="list-style-type: none"> Regulatory revolution stemming from several laws, such as <i>The Resolution 4.656/2018</i> allowing the provision of credit through digital platform, and the <i>Payment Institutions Act</i> allowing institutions to provide a number of services, such as issuance of payment instrument, and management of payment accounts
Economic	<ul style="list-style-type: none"> Latent demand for credit thanks to the end of Lula's credit programs, and the recession
Social	<ul style="list-style-type: none"> Brazil is one of the countries with the greatest number of unbanked (60m) with a young demographic. In addition, the country records the highest number of WhatsApp (free messaging app) users worldwide, with 120m people using it Over time the internet infrastructure costs have gone down, e.g., wider and cheaper access to Wi-Fi
Competition	<ul style="list-style-type: none"> At the time of Nubank's foundation, the competition was composed of 5 major banks providing substandard service with very high fees

2. How did the founding team mold the company?

The discussion should start about how different the three profiles were (e.g. nationality, backgrounds, approach, etc.) and then it should focus on how the founders are not only different but also complementary. Some of the challenges they might have encountered (especially Velez and Wible not being Brazilian). Possible discussions of challenges and positive aspects on the founders as below. Keep in mind that this is not an exhaustive list.

- David Velez
 - Shortcomings → non-Brazilian, no prior experience in consumer banking

- Strength → knowledge of VC game (used to work for Sequoia) & access to capital mixed with a deep understanding of Latin American culture and problems having grown up in Colombia
- Cristina Junqueira
 - Shortcomings → no prior experience in the startup environment or innovation
 - Strength → deep knowledge of the Brazilian market and consumer, deep knowledge of the product (used to work for one of the major Brazilian banks, in their credit card division), and high conviction in the need of building a more ethical offer than the ones offered by the incumbent banks (proposed a project for better fees and service for consumers when was in Itaú credit card division)
- Edward Wible
 - Shortcomings → American (coming from a very different background compared to the other two founders), became CTO but had no real coding experience (except having graduated in Computer Science from Princeton) as he worked for all of his career in private equity
 - Strength → according to Velez: 1) deep belief in the product and 2) commitment to work on it. Plus, Wible had always worked in tech-related roles meaning he had developed a good understanding of tech also from a business perspective and built important connections. Lastly, the fact that he is a CS major might have played a role in him being able to pick up coding faster than others when it was required

Section II | Positioning strategies

After analyzing the resources and capabilities that have built Nubank's competitive advantage, we will move to understand the positioning strategies used by the company to achieve the same goal.

1. How did Nubank succeed? Which strategies did it draw on to get to where it is today?

The instructor once again should prompt the students to brainstorm on the different strategies Nubank adopted to establish itself.

- Nubank invested virtually no money in marketing & advertising - especially at the beginning, and it does not have physical spaces to translate into lower costs and consequently a lighter balance sheet
- Learning curves, by focusing on a set of products and gaining a solid understanding of the customer base, Nubank can capitalize on the fact that over time by learning more and more about one product a company's output increases as costs stay the same or decrease
- Culture, in fact, Nubank's Velez purposely built a company that was "the most anti-bank possible" ("Some people absolutely hated it ... some people absolutely loved it, but nobody ignored it")
- Product, for addressing all the pain points of the customer journey (as discussed previously)

Disruption & Blue Ocean. Here the instructor should engage with the students asking about what their definitions of disruption and blue ocean are, and whether or not they are mutually exclusive. Once the exercise is done, the professor should go on and talk about the differences between the two. In particular, a blue ocean strategy is about finding a superior or lower-cost solution,

targeting non-customers -- essentially, it is not synonymous with disruption and displacement of current solutions. On the other hand, disruptive innovation fundamentally alters and improves a product or service in an unexpected manner. This is usually done by providing a “good enough” product to low-end customers, which once improved and ready for mass adoption ends up taking over the market. In Nubank’s case, these two strategies are not mutually exclusive.

From a *blue ocean* perspective, Nubank taps into a customer base largely ignored before - the unbanked. It does so by addressing different types of customer needs through 1) elimination of costs associated with marketing and branches (physical assets), 2) reduced access barriers, e.g., fees, bureaucracy, credit scoring), 3) raising customer service standards, in-company culture expectations, and customer convenience, and 4) creating an integrated product offer digitally available, and a new identity for the banking industry with a tech-first approach.

From a *disruption* perspective, Nubank put traditional business models under pressure. While the incumbents like Bradesco and Itau were focusing on the middle class, and BTG was focusing on high-net-worth individuals, Nubank started by targeting the overlooked part of the society, i.e., people with lower incomes (historically excluded from traditional financial services). This allowed the company to refine its product offering so that it would satisfy the needs of the more demanding customers of the middle class. Currently, with the new Ultravioleta offering, Nubank is working its way up to develop a good enough offering for higher-income customers to try to dominate the market.

Section III | Assessing Nubank’s competitive advantage in the long run

What is the key challenge Nubank is facing now?

Students may mention Nubank’s competitors and the uncertainties regarding its valuation. The instructor should then stress that competition derived from imitation of the incumbent banks is

Nubank's biggest challenge to sustain its competitive advantage in the long run and that this is what is putting their valuation to the test.

Is Nubank's competitive advantage sustainable? How to assess that?

The instructor will throw this question to students that may mention Porter's 5 forces, Resources, Capabilities analysis, and other static frameworks. However, instructors should advise students that thanks to these frameworks' rather static nature and the fact that it ignores many aspects of the competitive environment including the role of complementarities, path dependencies, and supporting institutions, its application will limit the ability of the entrepreneur and/or the enterprise to properly sense opportunities and threats and calibrate strengths, weaknesses, and technological and market trajectories in dynamic industries.

To really assess the sustainability of competitive advantage in such dynamic and changing industries like banking in Brazil the best is to use the dynamic capabilities framework. Dynamic capabilities can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets.

To further understand the power of Nubank's dynamic capabilities and the sustainability of its competitive strategy we need to first understand its competitors' dynamic capabilities and compare them with the ones identified for Nubank. In particular, we will explore Bradesco's Next and BTG's BTG+ responses.

Competitors dynamic capabilities

Sensing. After decades of being in the business, incumbents have plenty of data at their disposal but lack the structures which enable them to actually use it properly. For example, for BTG+, most of the management comes from former employees of BTG Pactual and the hiring process has largely stayed the same. Which does not optimize for an innovative workforce that will sense on a large scale the opportunities for the disruption the data may present.

However, due to the new standards raised by Nubank, incumbents are responding by increasing efforts in acquiring the capabilities they lack in areas such as customer service, which was once outsourced to cut costs. In particular, Bradesco has been acquiring new players at the intersection of customer service and artificial intelligence.

Seizing. Seizing is about being able to capitalize on the opportunities that have been sensed. Most incumbents, excluding BTG+, have failed to do so because 1) It requires a lot of ‘prototyping’ and trial and error, which works well with agile companies, however, most of the incumbents do not have a very advanced organizational architecture being able to support agile model. 2) Compartmentalization of functions and tasks and centralized decision making (only senior management holds the bigger picture of the project)

On the other hand, BGT+ ran as a pilot for employees and selected customers before launching to the public in 2021, in an effort to co-create the user experience which is key to seizing opportunities. In addition, unlike Nubank, whose customer base is primarily composed of the unbanked and *lower/middle-income* people, BTG+ leverages on its deep experience in servicing high-net-worth individuals and adapts the model to provide its services to the upper-middle class. Ultimately, the better product offering of BTG+ for the premium segment differentiates them from Nubank, which is still building its premium offering.

Managing threats/Transforming. Once the opportunities are sensed and seized, companies need transforming capabilities to unlock the full potential of digital strategy execution. This presents a few challenges for both Next, BTG+, and the incumbents as a whole. In particular, 1) companies need to find a balance between building new innovative capabilities whilst keeping the current product innovation practices. 2) The governance structure should be flexible enough to encourage entrepreneurial thinking when in most cases incumbents have hierarchical structures and centralized decision making.

Nubank

Sensing. On the other hand, Nubank is relying on 1) Data gathering and analysis. Leveraging their in-house customer service, which not only helps empower its customers & employees but also serves as a constant feedback loop for product iteration. As a tech company, Nubank is able to use IoT and big data combined with machine learning (AI) and machine learning (ML) to treat it and translate it into new opportunities. 2) Dynamic managerial capabilities where its managers (and not only) ought to engage in entrepreneurial activities in order to consistently keep the innovation flowing. In addition, when building the *squads* (i.e., teams), Nubank aims at recruiting a very diverse workforce, e.g., different nationalities and backgrounds as well as experiences, and foster a startup culture of low hierarchy and incentives to innovation which helps to sense a broader spectrum of opportunities

Seizing. As a tech startup, Nubank has had to iterate its products many times before getting to product/market fit, this means fast deployment and product improvement are embedded in Nubank's DNA. Seizing capabilities are supported by: 1) agile decision making, coming from a combination of data-driven decision analyses and flat hierarchy & autonomy given at different levels, e.g., customer service employees have a budget that can be used to send gifts to clients on

particular occasions. 2) Juniors have as many opportunities to be in strategic big products as seniors or propose problems to be solved by Nubank

Managing threats/Transforming. Agile methodology and customer-centricity as pillars for organizational structure: 1) teams are divided into cross-functional *squads* to solve one specific problem. Rather than working in segregated teams with low synergies and with decision-making powers concentrated in the hands of senior management and/or head office. 2) Empowerment of customer service team by giving them a central role in creating and shaping the product

Knowledge sharing through customer and transaction data available company-wide, tech team members freely give SQL tutoring to anyone who is interested in exploring the data to gather insights. Customer support agents, designers, product marketers, product managers, business developers, business analysts, engineers, and many other functions could use the same tool for their decisions.

Summary

The instructor should summarize by saying that in innovative industries the key to competitive advantage cannot only lie in the traditional frameworks and strategies relative to static positioning choices and value offerings at a given point in time. Rather a company should assess its resources and capabilities, including idiosyncratic capabilities stemming from micro-foundations such as internal processes, governance, and knowledge management among others.

Appendix

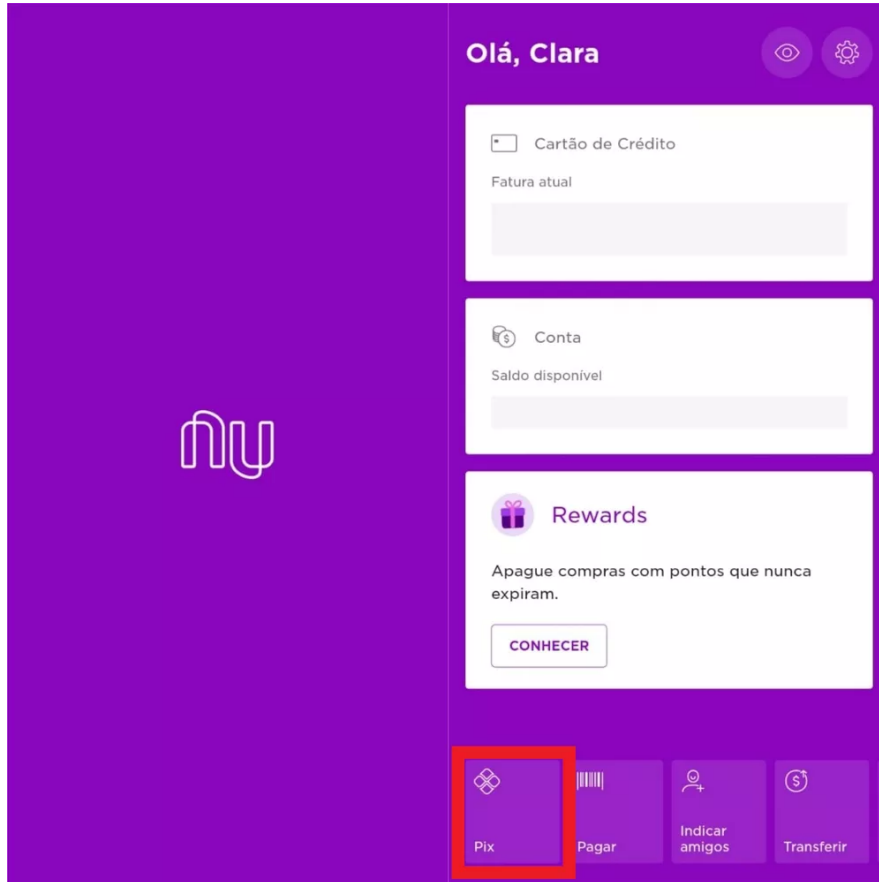


Figure 1 - Pix Integration with Nubank Application

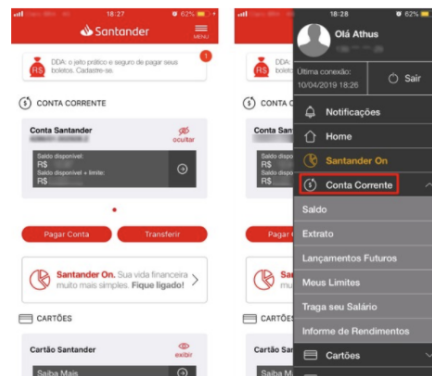
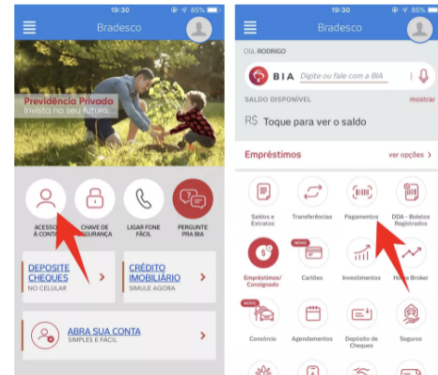
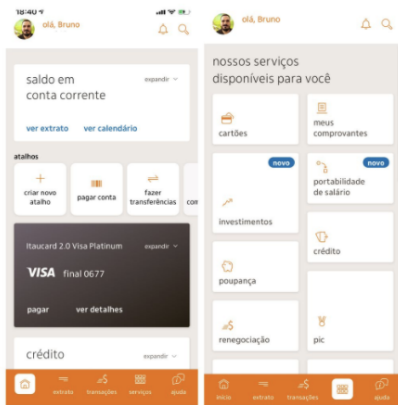
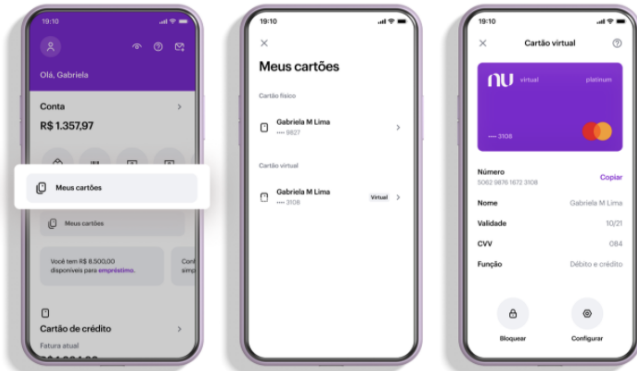
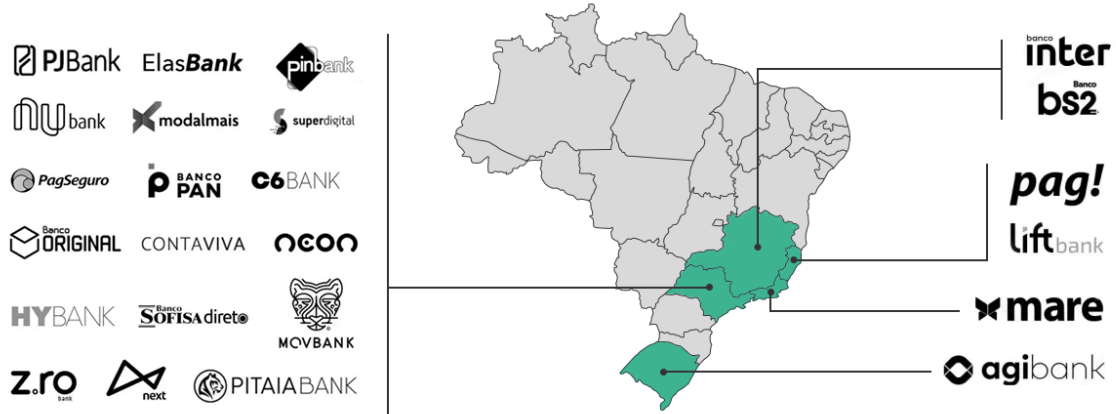


Figure 2 - Mobile App comparison between Nubank and its main competitors

Challenger banks and neobanks in Brazil



Source: Contexto

ikuznetsov.com

Figure 3 - Landscape of challenger banks in Brazil

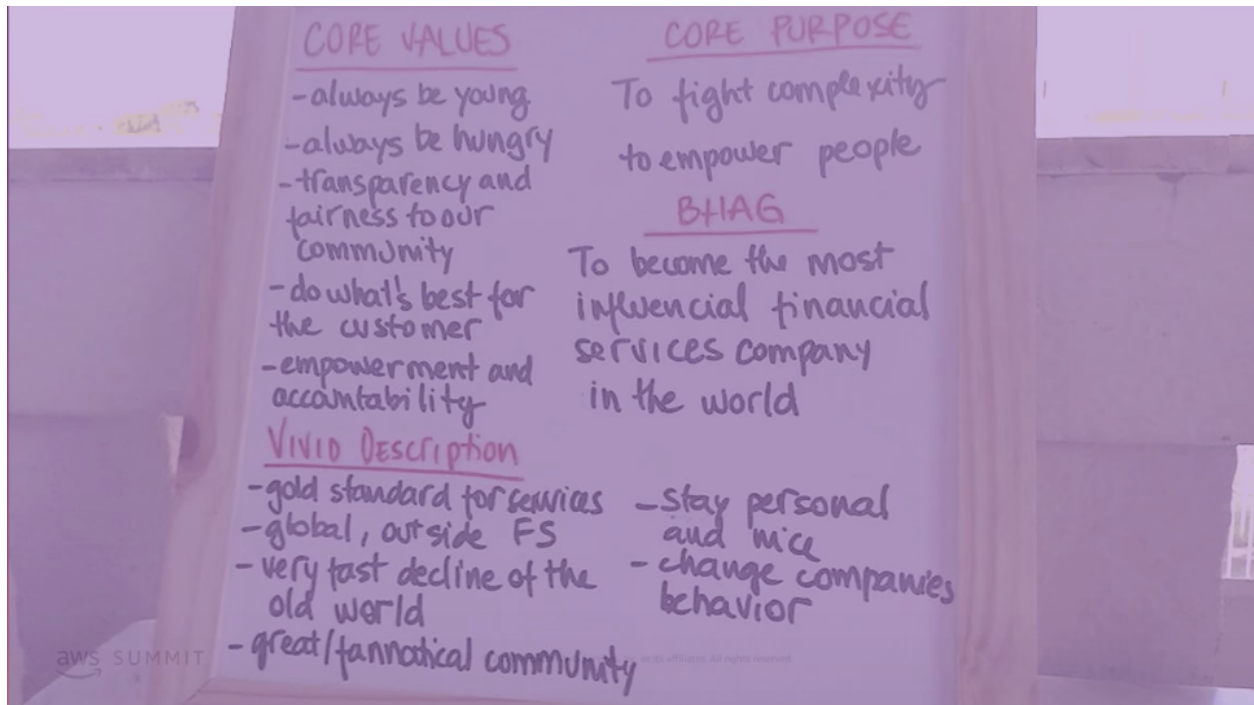


Figure 4 - Original board with handwritten values



Requirements

1 Be over 18 years old

2 Have a Brazilian Tax ID Number (CPF)

3 Be a Brazilian Resident

4 Own a smartphone

At launch:

Average signup time: **3 mins**

Waiting range to get the card: **3-15 days**

Figure 5 - Nubank's requirements

NuDog (Nubank x Zee.Dog)

 **micaellakiane** @micaellakiane · 3 de set de 2020
@nubank esteja ciente que o cartão atacou Martin e Matilda, por isso precisarei de um novo #dogs #lovepet #doguinhos




 **Marcos Tulio** @MacTulio · 18 de ago de 2018
@nubank Sabe aquela história de que o cachorro comeu meu cartão?



Figure 6 - Nubank's partnership with Zee.Dog

1	Product Innovation & Digital Transformation	2	Culture & Customer Service	3	Cost Reduction
	<ul style="list-style-type: none"> • Creation of standalone digital banks, e.g., Bradesco's <i>Next</i> and Itaú's <i>iti</i> • Product expansions, e.g., digital wallets and investment platforms • Increased usage of data-driven solutions to better understand customers 		<ul style="list-style-type: none"> • Revamped culture, less formality and more diversity & inclusion • Improved customer service to match the levels of other digital banks 		<ul style="list-style-type: none"> • Reducing operational costs, e.g., closure of physical branches and layoffs

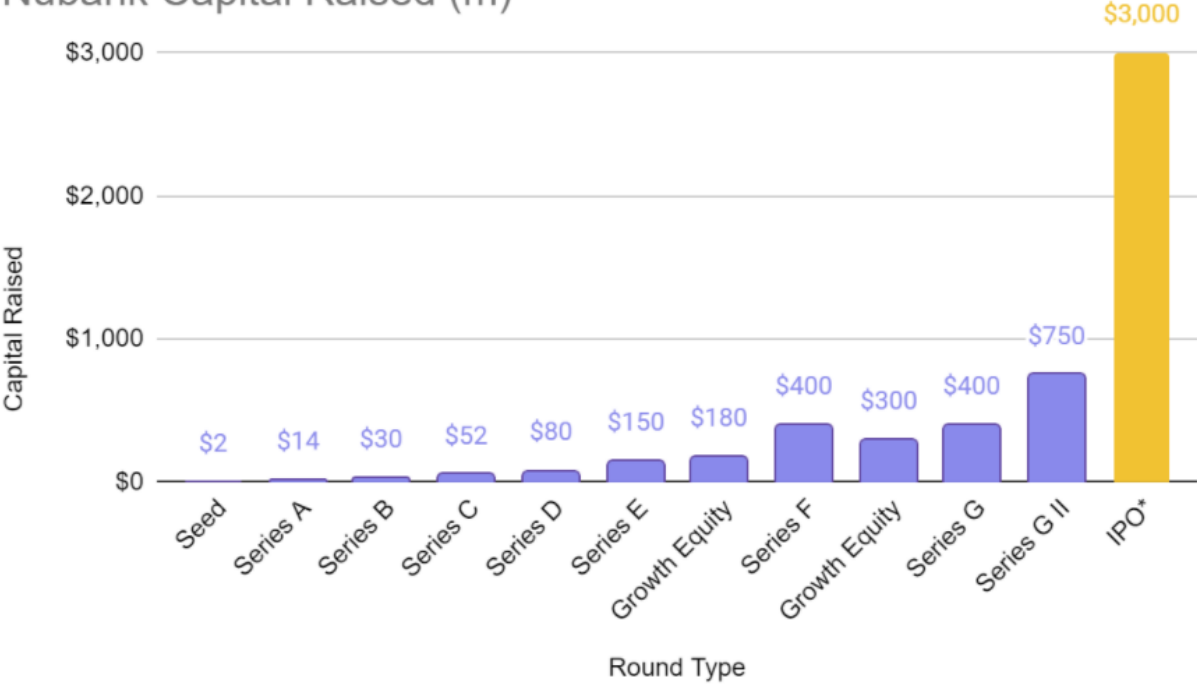
Figure 7 - Competitor's responses to Nubank (summary table)

Round Type	Year	Investors
Seed	2013	Sequoia Capital, KaszeK Ventures
Series A	2014	Sequoia, KaszeK, QED Investors, Nicolas Berggruen
Series B	2015	Tiger Global, Sequoia, KaszeK, QED
Series C	2016	Tiger Global, Sequoia, KaszeK, Founders Fund, Goldman Sachs (debt)
Series D	2016	Redpoint, Tiger Global, Sequoia, DST, Founders Fund, QED
Series E	2018	Redpoint, Thrive Capital, DST, Ribbit Capital, Founders Fund, Dragoneer Inv., QED
Series F	2019	Sequoia, KaszeK, QED Investors, Nicolas Berggruen
Series G (I)	2021	Sequoia, Tencent, Ribbit, Dragoneer, GIC, Invesco, Whale Rock
Series G (II)	2021	Berkshire Hathaway
Growth Capital	2018, 2020	Sequoia, Tencent, Ribbit, KaszeK
Debt	2016, 2017	Goldman Sachs, Fortress Investment Group

Source: Dealroom - as of November 2021

Figure 8 - Nubank's Investors Map

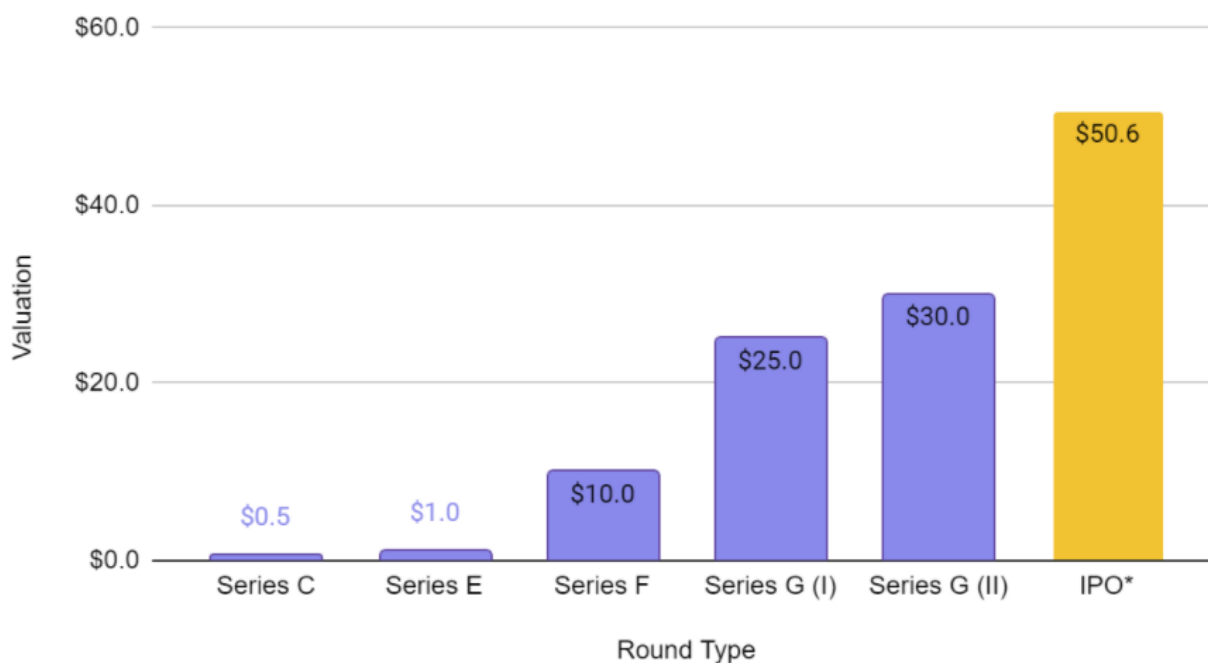
Nubank Capital Raised (m)



*IPO: as the time of writing the IPO is still being handled, therefore the numbers are only projections

Figure 9 - Nubank's Capital Raised since 2013 (founding year)

Nubank Valuation (bn)



*IPO: as the time of writing the IPO is still being handled, therefore the numbers are only projections

Figure 10 - Nubank's Valuation Evolution

Mobile Phone Users and Penetration in Latin America

	Mobile Phone Users (Millions)						Mobile Phone User Penetration (% of Population)					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Brazil	130.1	137.3	141.3	144.7	148	151	64.7%	67.7%	69.2%	70.3%	71.4%	72.3%
Mexico	74.4	78.2	81.3	83.5	85.6	87.3	62.8%	65.3%	67.2%	68.3%	69.3%	70%
Colombia	30.8	31.7	32.4	33	33.7	34.3	67.3%	68.6%	69.3%	70%	70.6%	71.2%
Argentina	29.4	30	30.7	31.3	31.9	32.4	68.9%	69.7%	70.6%	71.4%	72%	72.5%
Peru	17.1	18.2	19.1	19.6	20.2	20.6	57.4%	60.4%	62.6%	63.8%	64.9%	65.8%
Chile	12.4	12.6	12.8	13	13.2	13.4	72.2%	72.8%	73.3%	73.9%	74.3%	74.6%
Other	85.4	87.5	89.4	91.2	93.6	95.5	58.5%	59.2%	59.8%	60.3%	61.1%	61.7%
Latin America	379.5	395.5	406.9	416.5	426.1	434.4	63.2%	65.2%	66.4%	67.3%	68.2%	68.9%

Individuals of any age who own at least one mobile phone and use the phone(s) at least once per month.

Source: eMarketer

Figure 11 - eMarketer on Mobile Phone usage and penetration in LatAm

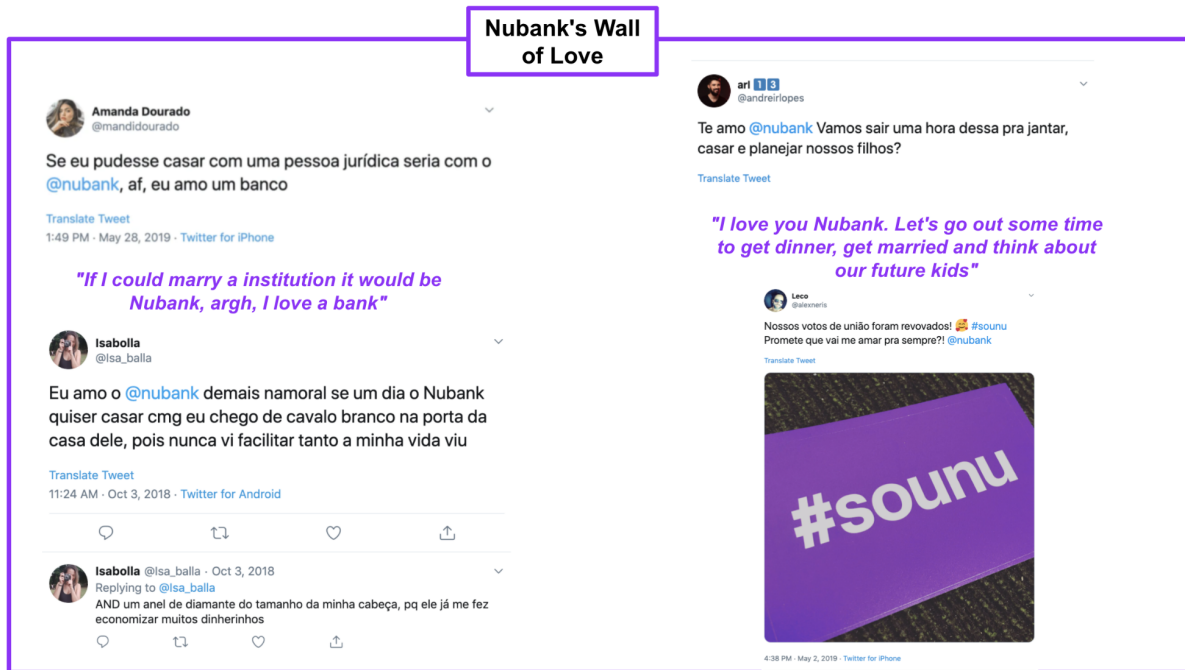


Figure 12 - Nubank's customers publicly praising the company and its customer service

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A Work Project presented as part of the requirements for the award of a Master's degree in
Management from the Nova School of Business and Economics.

TO BRAZIL & BEYOND - THE CASE FOR NUBANK'S EXPANSION TO INDIA

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Student ID: 43438

Work project carried out under the supervision of:

Afonso Almeida Costa

17.12.2021

Abstract/Summary

Expanding to new markets has always been of interest to companies trying to harness new revenue streams and take advantage of cost optimization opportunities. This paper explores the steps Nubank, a Brazilian company providing digital banking services, should take in order to assess its market entry into India. The analysis is composed of three steps: 1) understanding the target market as a whole and its tech ecosystem, 2) assessing Nubank's internal capabilities, and 3) weighing the different options to enter the target market.

Key Words

Internationalization, expansion, acquisitions, competitive advantage, resources and capabilities, India, Brazil, Nubank, financial services, digital banking

Introduction

Many companies are born local, but increasingly rely on international strategies to succeed in today's globalized world, where operating only in one's own market is limiting. Within this context, Brazilian digital bank Nubank, founded in 2013 as a response to an overly-complex banking system mixed with poor customer experience, is looking at expanding geographically. With 48m customers and already present across Brazil, Mexico, and Colombia, the company might be assessing a potential move to India (*Figure 1* for more information on its journey).

Literature Review

As the world moves fast and distances shorten, internationalization quickly becomes an appealing option to companies to unlock new revenues and opportunities. Welch & Luostarinen (1988), defined internationalization as the “adaptive process of companies’ operations (strategy, structure, resources, ...) and international environments”. The decision to go ahead or not with such a strategy is linked to several benefits a company can reap, such as cost efficiencies, new customers, new products, etc. However, Alexander (2009) warns companies of the dangers that come with it, in fact, in the rush to the golden benefits, one can face disastrous consequences, especially when such strategies are not the result of a “rigorous self-assessment”. This paper aims at analyzing three main areas which should form the basis to make an informed internationalization decision. Firstly, an analysis of India & its tech ecosystem, which is a determinant of its readiness when it comes to potential success in the sector, and the differences with Brazil. Secondly, an internal analysis of the value creation possibilities of Nubank, and lastly a review of the entry modes options. A framework from In & Shin (2018) will help unpack the

current Indian FinTech ecosystem, the diamond model (Porter 1990) will be used to assess the competitiveness of the Indian FinTech industry focusing on holistic competitive advantages covering several aspects from labor to land and from the role of government to chance. Then, the CAGE framework (Ghemawat and Siegel 2011) is used to assess the institutional distance, defined as “a measure of cross-country differences” (Kostova and Zaheer 1999), to better understand possible integration advantages and disadvantages between Brazil and India. Next, the internal capabilities of Nubank to expand to India are assessed using the resource-based view (RBV). The capabilities will be evaluated against external opportunities (Barney 1991), with the assumption being that it is easier to leverage existing resources rather than having to build them anew. Finally, the possible entry modes will be analyzed through the ‘build, borrow, buy’ framework by Capron and Mitchell (2012) which can be used to understand the best option to enter the market, with particular reference to Jupiter, an Indian company Nubank is already investing in.

Nubank’s first steps towards India

Nubank creates digital financial solutions targeted at people who historically have had little to no access to banking services from the five major banks in Brazil, detaining most of the power. It started by providing credit cards with no fees and simplified the whole customer journey, with a particular focus on customer service (stemming from a strong internal company culture). Today Nubank is the biggest digital bank worldwide, and the 6th largest credit card issuer in Brazil with an increasing number of service lines provided, such as personal loans, personal investments, etc. (Von Tobel 2021).

In August 2021, Manish Singh, who covers India for TechCrunch, the online tech-focused newspaper, wrote the article “Nubank co-leads \$45m investment in Indian neobank Jupiter”. What does Jupiter do and why did Nubank invest in it alongside famous venture capital (VC) funds such as Sequoia Capital and Global Founders Capital among others? (Singh 2021).

Jupiter (see *Figure 2*) is a Bangalore/Mumbai-based startup that, despite only being founded in 2019, has already raised \$70m at a valuation of over \$300m. The company is bringing the digital experience of banking to Indian consumers, with one of their mottos being “We are the people who dislike standing in lines at banks and being told to ‘come back after lunch break” (Jupiter 2021).

1| Understanding India and its ecosystem: Today’s India Tech Ecosystem

India today presents good numbers when it comes to growth within its tech ecosystem, with Bangalore being its main tech hub. The city ranks 3rd for number of tech startups globally, and it attracts 57% of the country’s startup funding (Chitra 2018). India, in the last decade alone, has raised \$31bn and has minted 66 unicorns (i.e., a startup valued at more than \$1b) and counting. The IT industry represents 8% of India’s GDP, employs circa 4m people, produces about \$200bn in annual revenue, and has a total value-creation opportunity of approx. \$100bn (The Boston Consulting Group 2021; The Scalers 2020). See *Figure 3* for more detail on capital inflows.

The Journey from Outsourcing Hub to Asia’s “Silicon Valley”

In an expansion case, it is necessary to understand if the target country has an ecosystem strong enough to be able to support further growth. According to In & Shin (2018), there are a total of five elements that if working in harmony create the ideal fintech ecosystem, i.e. fintech startups,

technology developers, government, financial customers, and traditional financial institutions (Figure 5).

Fintech startups. Startups are at the heart of the ecosystem, they are innovative and disruptive trying to defy the current status quo established by incumbents. In India specifically, there are more than 2,100 FinTechs and 67% of them have been founded in the last 5 years (The Boston Consulting Group 2021). Most of the companies are in the payments vertical (constituting more than 90% of the capital inflows), supported by rising demand boosted by the global health crisis which has brought sustainable behavior changes towards digital payments. **Technology developers.** India produces circa 2.6m Science, Technology, Engineering, and Mathematics (STEM) graduates every year, only second to China (see Figure 6). In addition, the presence of a number of technology companies such as Facebook, Apple, etc. has helped the country's talent further refine their skills. **Government.** Governments play key roles in the development of tech ecosystems, with the first big initiative being the liberalization of the import and export of hardware and software in the '80s (Panagariya 2004). More recently, in 2015, the government launched a program, *Digital India*, aimed at providing all of its services digitally (e.g., e-education, e-health, etc.) to its citizens thanks to improved online infrastructure and Internet connectivity (Digital India 2021). **Financial customers.** The Indian consumer seems to fit the profile targeted by the neobanks; according to a report by Deloitte (2017) consumers are tech-savvy and convenience seeking. Overall the country has a very young population that has demonstrated a preference for digital alternatives. The COVID-19 pandemic has boosted the demand for digital payment services with transaction volumes going from \$27bn in 2019 to \$53bn in 2020 (Shine 2021). **Traditional financial institutions.** Studies have shown that historically the Indian competitive landscape has been largely monopolistic, until 2014, a year in

which thanks to some initiatives led by the Modi government, competition has increased in the financial services space. Additional liberalization initiatives would be needed in order to make the sector further competitive (Prasad and Ghosh 2005). Based on the above assessment India's FinTech Ecosystem seems to present strong enough characteristics to allow for further growth in the future, ultimately benefiting from a possible entry from Nubank.

Nubank's entering India

Nubank is looking at deploying current services in a new market, India. It is a tough market to crack, and many companies have failed to try to enter it. An example is Netflix that has not been able to capture a significant market share in the country. This was due to the highly competitive market (Hotstar holds about 70% of the market), pricing (too high compared with current alternatives), piracy (the country has high piracy rates that do not allow Netflix to protect its content), lack of personalization for the region, and lastly low marketing budget (Madhavan 2017).

India's Competitiveness through Porter's Diamond Model (1998) (see Figure 7)

Factor Conditions "are those elements a country's economy can create for itself" (Porter 1998) They can be divided into five main categories: 1) human resources, 2) physical resources, 3) knowledge resources, 4) capital resources, and 5) infrastructure (see *Figure 8 for more definitions*).

Human resources. India has a clear opportunity for labor arbitrage, although there are several roles needed to make a company successful, we can take for instance the cost of software developers (which are a key part of any digital banking company), whose hourly rates are 20% to 60% lower than Brazil (\$19-\$40/hour vs. \$35-\$50/hour) (Daxx 2021) (*Figure 9*). The Indian

workforce is young, already used to working for international companies (thanks to international companies establishing their presence in the country since the '80s (Joshi and Mudigonda 2008). Lastly, in the '60s India saw its best talent flee towards lands with more opportunities, now talented people are either going back, staying, or providing additional guidance and capital to entrepreneurs (The Scalers 2020). **Physical resources.** These are not relevant for the purpose of this analysis. However, it might be worth mentioning that the time difference (circa 8 hours between Sao Paulo and Bangalore) might pose a problem. **Knowledge resources.** The country has historically produced some of the best technical talents, being the second-highest by number of engineering graduates (NASSCOM, 2010). In addition, the presence of many international companies in the country has helped with the spread of IT knowledge. **Capital resources.** In 2021, venture capital inflows specifically, have for the first time outpaced those in China. In 2020 alone, the country has registered a staggering c.\$10bn in VC investments (Bain & Company 2021). **Infrastructure.** Despite the current investments in infrastructure by the government, India's historical poor infrastructure helped position itself towards a service economy more than one based on goods. In addition, thanks to many reforms in the '80s, essentially with the liberalization of the import and export of hardware and software helped the costs of computers, etc. lower substantially (Bhattacharjee and Chakrabarti 2015).

Demand conditions refer to the characteristics of the customer base for the product (Porter 1998). They can be analyzed through three main categories: 1) the composition of demand, 2) the size & growth, and 3) how a nation's preferences are transmitted to foreign markets.

Composition of demand. The demand for Nubank's services would be largely determined by small-and-medium enterprises (SMEs) and consumers, and most of them are tech-savvy and convenience-seeking. Most importantly, according to Nirmala Sitharam, India's Finance Minister,

India's fintech adoption rate is 87% compared to the global average of 64%, making the country a prime destination for digital payments and activities (Shine 2021). 50% of India's population is below the age of 25, and more than 65% is under the age of 35 - making it a very favorable demographic (Census of India 2021). From a generational point of view, 77% of the over 60s prefer WhatsApp and Facebook over more traditional communication methods, about 80% of millennials understand advanced technology, and lastly, Gen Z, the largest in the world, is among the early adopters of new technologies (News 18 2021; Deloitte 2021). Another key data point is Indian women are more tech-savvy than their western counterparts - for instance, the percentage of women in tech is 35% vs. 17% in the United Kingdom (Zaveri 2019). It comes as no surprise that the digital payment transaction volumes have grown from \$27bn in 2019 to \$53bn in 2020 - where the increase has also been boosted by COVID-19 - ultimately, signaling a significant demand for the product (Shine 2021). **Demand size and pattern of growth.** India has the highest number of real-time online transactions with 26bn real-time transactions in 2020 alone. As of September 2021, the country has registered almost 6bn transactions worth c. \$2tn. Growth is extremely fast when looking at data from Unified Payments Interface (UPI), an instant real-time payment system that went from 300k transactions in November 2016 to 4bn in November 2021 (India News 2021). **Internationalization of domestic demand, related and supporting industries, and firm strategy structure and rivalry.** These are not very relevant to the case and/or were already discussed indirectly in the paper.

Chance. Recently, there has been tension building around the US and China. US President Joe Biden signed an executive order for the creation of "China-free" supply chains in strategic industries. As a result, companies from the US, the EU, etc. are all considering moving production to India (Hoyama and Nakamura 2021).

Government. The government of India has done a lot over the course of the past decades in order to boost the country's competitiveness. More recently, Invest India (2021), the National Investment Promotion & Facilitation Agency referred to the following as some of the most important ones. *Jan Dhan Yojna* promotes financial inclusion and helps more than 400m people access financial services, which in turn would help Nubank access a bigger and bigger customer base. *Financial literacy.* Promotion of financial education across India for all sectors. *E-Rupi.* Digital payments instrument that allows for contactless and cashless payments. India Stack. A large set of APIs allows for both private and public initiatives to run smoothly (Invest India 2021).

CAGE Distance Analysis

The CAGE framework assumes that a company needs to understand not only the similarities but, maybe, more importantly, the differences between countries when assessing for internationalization purposes (Ghemawat and Siegel 2011). The analysis shows that the two countries are distant when it comes to 1) culture, due to language differences, religious dissimilarities, and different social norms, 2) administration, due to absence of colonial ties, and lack of shared monetary and political association, and 3) geography, due to lack of common borders, physical remoteness, and time differences. However, they are similar from an economic point of view, in particular in both countries there is high income inequality (India's top 10% of the population holds 77% of the country's wealth, and Brazil's top 5% earns as much as the remaining 95%). Overall living conditions in Brazil are higher than in India, but both countries are on the lower-end of the spectrum with regards to GDP per capita, \$9.8k and \$1.9k for Brazil and India respectively. Both countries have big economies, with Brazil being ranked 5th (\$2.6tn)

and India being ranked 8th (\$2tn). From an economic point of view, both countries seem to present similarities, which, combined with the young and tech-savvy population, would suggest possible similarities in customer needs (*see Figure 11*).

2 | Nubank's Internal Resources and Capabilities

An internal analysis of Nubank's resources and capabilities is key to understanding its chances to enter the Indian market. The analysis is run through the RBV model. It prompts one to look at internal components in order to find the sources of competitive advantage that can be used to assess external opportunities. Only the top three resources, by importance, will be explored, i.e. financials, human capital, and innovation/technology. For a more in-depth analysis, *see Figure 13 and 14*.

Financials. The company relies on traditional revenue streams, such as merchant and late fees, which do not constitute any particular advantage compared to others (*see Figure 14*). However, the company has been able to raise significant capital (*see Figure 15*) from important investors and has most recently gone public raising c. \$3b, becoming LATAM's most valuable listed bank (Reuters 2021). This translates into the ability to expand and improve their product and keep on hiring top talent.

Human capital. This area is one where Nubank has outshined not only its direct competitors but also the wider banking industry. This is thanks to exemplary leadership brought by the knowledgeable and well-experienced founders, solid recruitment and in-house training based on ad-hoc processes, constant efforts for employee development, and a culture permeated with empowerment which allows employees to feel like owners. Ultimately, this set of characteristics makes human capital an extremely important resource that is hard to copy.

Innovation/technology. Nubank is a tech company at heart and one of its main strengths is its ability to iterate its product fast based on feedback loops and decision-making based on data collected from customers. In addition, the company has actively chosen to keep in-house the technology, instead of outsourcing it. This, coupled with a flat hierarchy, where people are encouraged to come up with and share innovative ideas, is a big component of what has made Nubank competitive and capable of staying nimble and getting to market fast. For instance, the company has registered a Net Promoter Score (NPS), meaning how likely are customers to recommend the product to friends and family, of 87 when the average NPS for financial institutions is 34 (Wang 2019; CustomerGauge 2021). Ultimately, the company's ability to innovate, to deliver top-notch products combined with good customer service has been a key success factor.

Reputation. Nubank has made a name for itself with strong brand recognition, despite minimal marketing efforts, thanks to 1) absence of annuity and tariffs for their products, 2) top-notch and personalized customer service & low hierarchy and innovative company culture, 3) easy to use products (digital-first approach) which reduces bureaucracy for the end-customer. The company has received good reviews from its customers, employees and has generated positive sentiment in the investor community (see *Figure 18*).

3 | How should Nubank enter India

According to the literature, there are a number of ways in which a company can enter a market. In the case of Nubank, one can assume that their preferred method of entry would be through acquisition, given the initial investment in Jupiter. Nubank's expansion strategy will be analyzed through the concepts of *build*, *borrow*, or *buy*. According to the framework, a company should

build (internally) when the existing resources are similar/relevant to the new ones, it should borrow when those resources can be obtained through effective relationships and should buy when other, more straightforward, options do not work. For the complete analysis, *see Figure 16, 17.*

Build. This represents a viable option for Nubank as it has a good knowledge fit which means that it has deep knowledge of the financial market specifically in emerging economies, and the skills necessary to build a good digital-first product. However, some challenges come from 1) the two countries' differences (see CAGE section), 2) the long timeline to build capabilities within the fast-moving nature of the industry, and 3) a set of external variables relative to the Indian government and its policies. **Borrow (via alliance/joint venture).** This is the least viable option due to the lack of narrow collaboration scope, and overlapping goals and objectives. Despite Jupiter and Nubank being able to learn from one another and exchange important knowledge, because they provide very similar services it would result in a high level of competitive overlap and possible tensions. The venture would become riskier and riskier over time. **Buy.** Based on the analysis this is the most viable option for a number of reasons. Firstly, Nubank has already expanded internationally by acquisition before to Mexico and Colombia with significant success with the post-merger integration strategy. Secondly, this mode of entry is faster than the alternatives which are ideal when taking into account the highly dynamic industry of FinTechs. Lastly, Nubank's culture is a key success factor for the company, and thanks to the reputation it has been building internationally since 2013, it would allow it, ideally, to retain and attract talent. Clear drawbacks of this strategy are the high levels of commitment, integration issues due to the countries' dissimilarities, and misalignment between the two companies' cultures. Ultimately, assuming a clear integration map, the ability to keep employee motivation high, and good M&A

& post-merger integration execution, Jupiter's acquisition has the potential of being very successful. In addition, the fact that Nubank is already a shareholder in Jupiter acts as an exploratory acquisition which will help Nubank test and better understand the possible benefits and shortcomings of the acquisition.

Conclusion

From the analysis, it can be concluded that India represents a solid market where FinTech is and will continue to flourish in the coming years, thanks to a supportive government, and increasing foreign direct investments coupled with international tensions between the US/Europe and China and a highly-skilled workforce. Despite Brazil and India being dissimilar in many ways which might pose a problem for integration, it seems like the underlying needs of the population and the general economic outlook are similar. Over time, Nubank has been able to develop key resources and capabilities such as human capital management and culture, financial resources, and innovation & technology. Thanks to these capabilities and its digital payments knowledge in emerging markets, Nubank, having internationalized before, seems to be well-positioned to sustain the next step into India by acquiring a local player, e.g. Jupiter.

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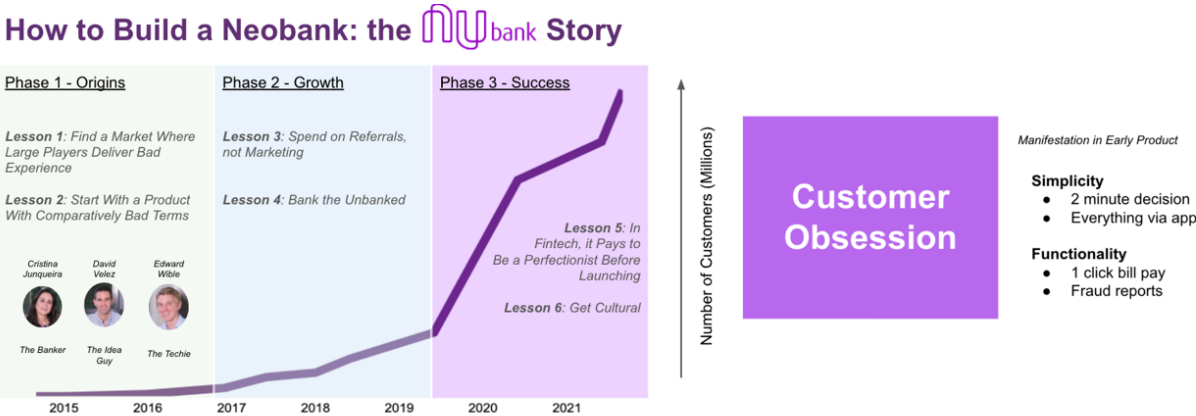
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Appendix



*Gupta 2021

Figure 1 - Nubank's Journey

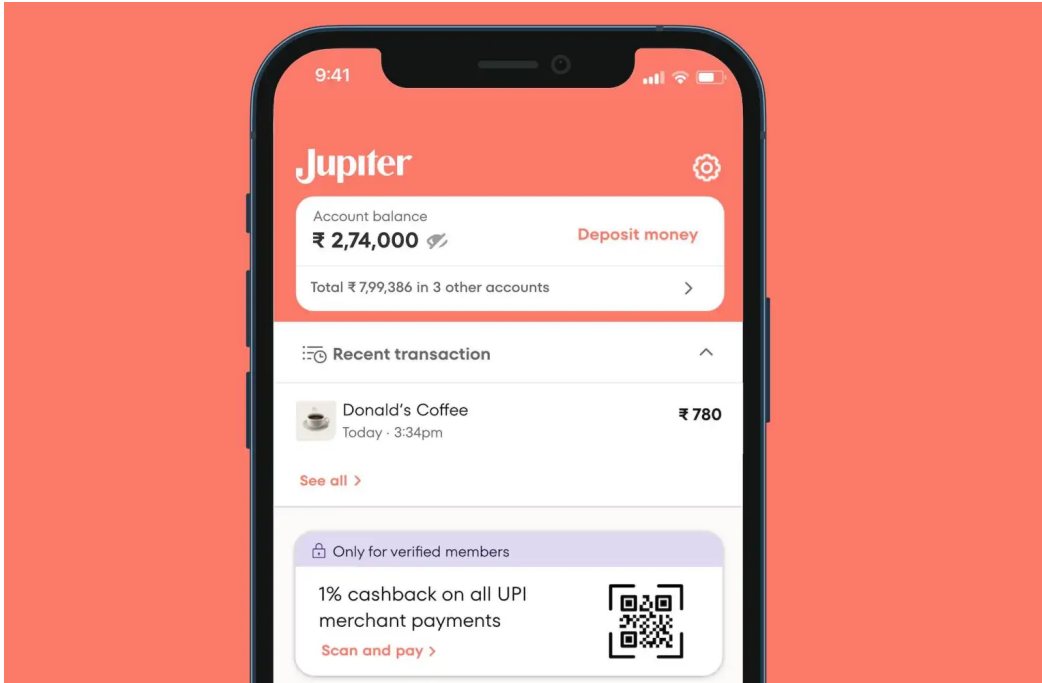
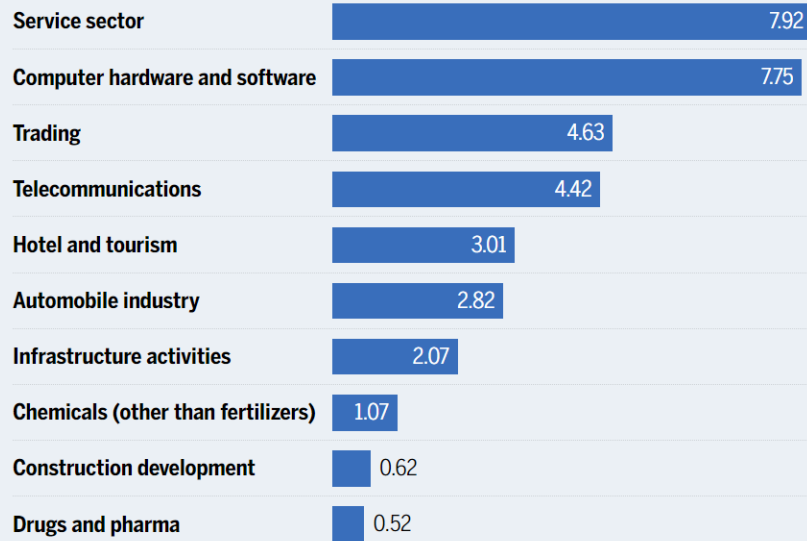


Figure 2 - Jupiter's Application

FDI equity inflows distribution India FY2020 by sector

(FDI amount in \$ billion)



TOI

Source: Hinrich Foundation Report; DPIIT; Statista

Figure 3 - Foreign Direct Investment flowing into India

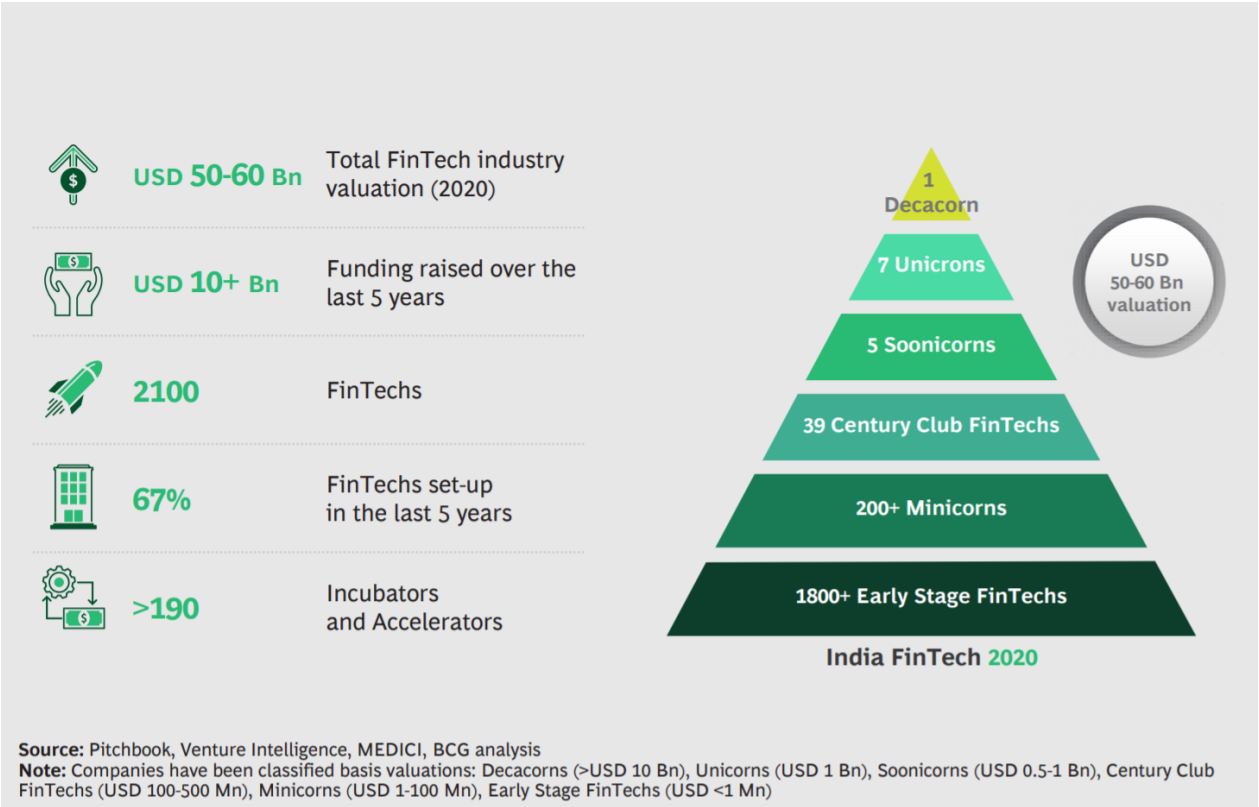


Figure 4 - India's FinTech ecosystem trajectory in 2020

#	Element Name	Element example components
1	Fintech startups	Payment, lending, crowdfunding, capital markets, insurance, etc.
2	Technology developers	Cloud computing, big data analytics, crypto, etc.
3	Government	Financial regulators and legislature
4	Financial customers	Individuals and organizations
5	Traditional financial institutions	Traditional banks, insurance companies, venture capitalists, etc.

Source: In & Shin (2018)

Figure 5 - In & Shin 2018, Components of a FinTech Ecosystem

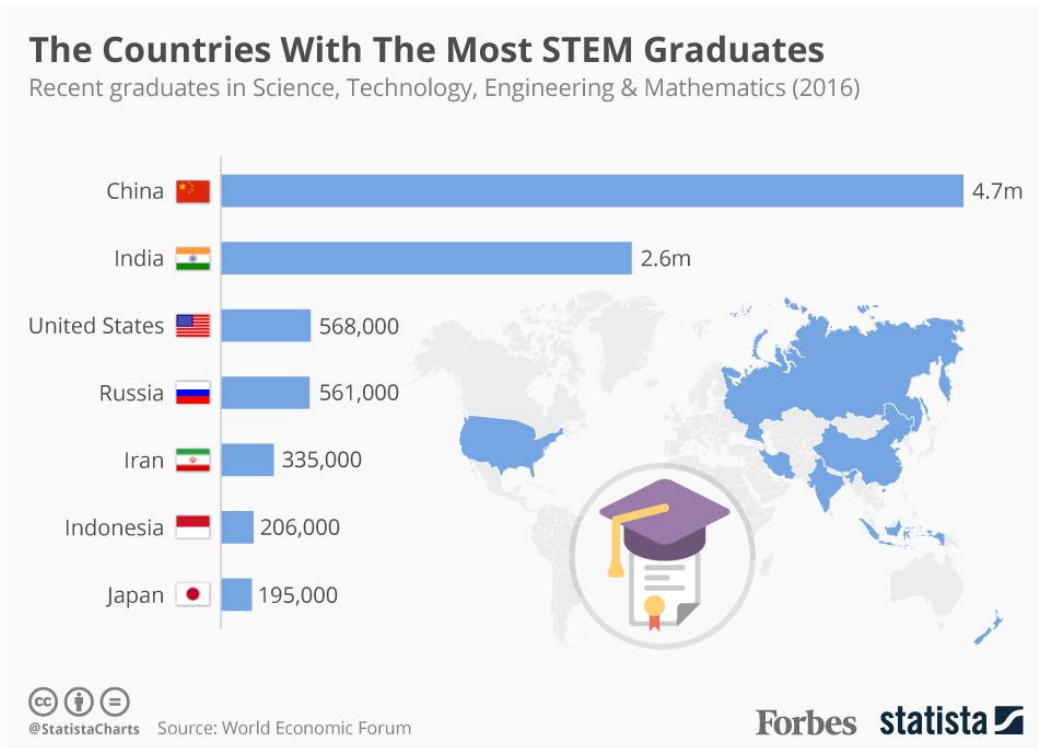


Figure 6 - Global ranking of STEM Graduates (m) as of 2016

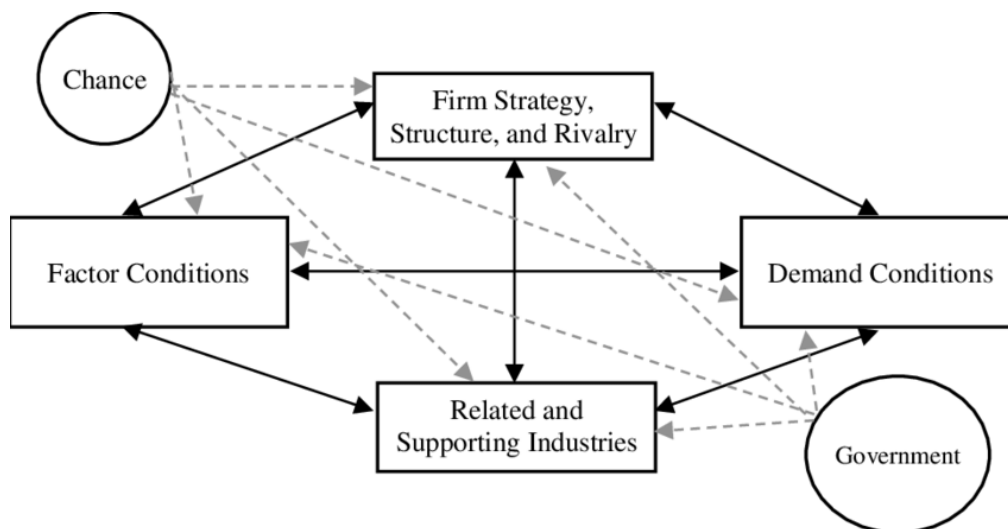


Figure 7 - Porter's Diamond Model

Dimension	Description
Firm Strategy, Structure, and Rivalry	The conditions in the nation governing how companies are created, organized, and managed as well as the nature of domestic rivalry
Demand Conditions	The nature of home-market demand for the industry's product or service
Factor Conditions	A nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry
Related and Supporting Industries	The presence or absence in the nation of supplier industries and other related industries that are internationally competitive
Chance*	Random events beyond a company's control which can be both positive and negative
Government Policies*	The government and its policies strongly influence the other dimensions, they can be at local, regional, national, or even supranational level

** these dimensions are left out of the core components of the framework, indicating their role in amplifying or weakening the diamond*

Figure 8 - Porter's Diamond Model - Definitions

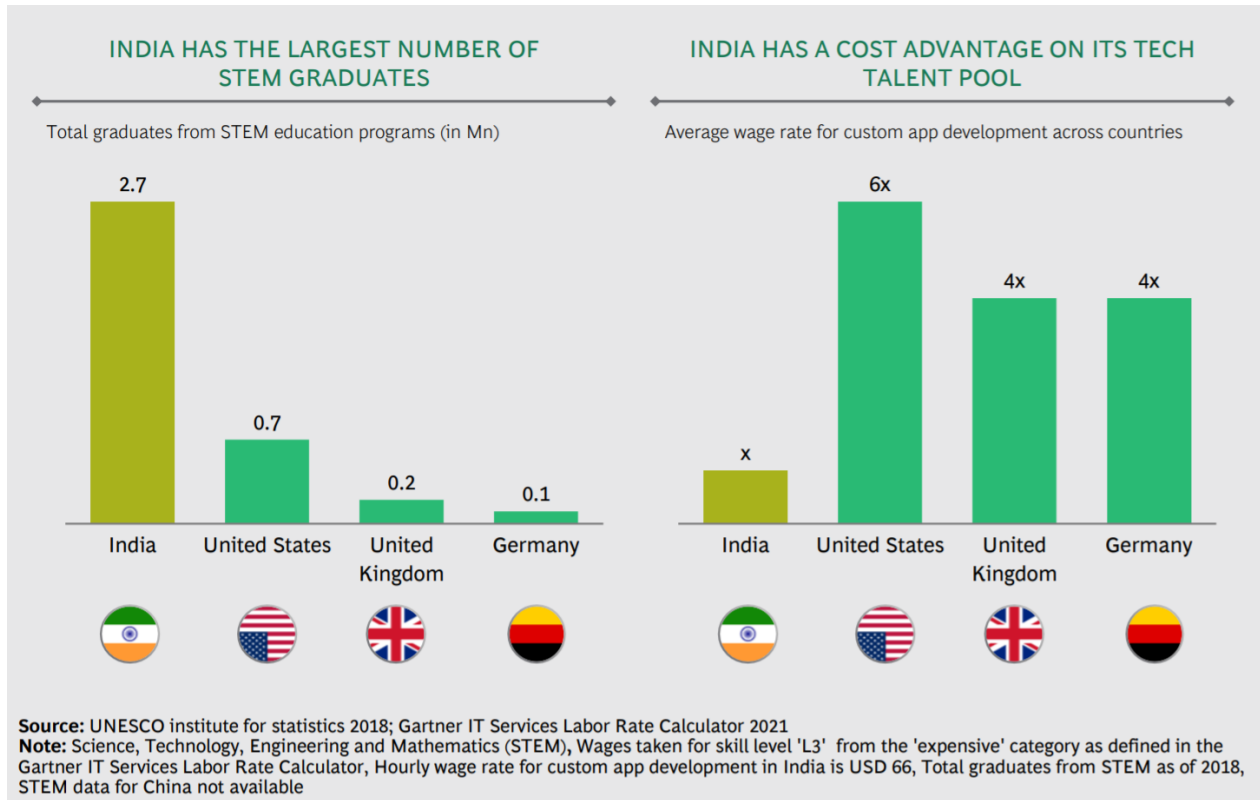


Figure 9 - India's tech-talent advantage by # of STEM graduates to cost arbitrage

	<i>Cultural Differences</i>	<i>Administrative Differences</i>	<i>Geographic Differences</i>	<i>Economic Differences</i>
Bilateral Measures	<ul style="list-style-type: none"> ● Different languages ● Different ethnicities/lack of connective ethnic or social networks ● Different religions ● Differences in national work systems ● Different values, norms and dispositions 	<ul style="list-style-type: none"> ● Lack of colonial ties ● Lack of shared regional trading bloc ● Lack of common currency ● Different legal system ● Political hostility 	<ul style="list-style-type: none"> ● Physical distance ● Lack of land border ● Differences in climates (and disease environment) 	<ul style="list-style-type: none"> ● Differences in consumer incomes ● Differences in availability of: <ul style="list-style-type: none"> Natural resources Financial resources Human resources Intermediate inputs Infrastructure Information or knowledge
Unilateral Measures	<ul style="list-style-type: none"> ● Traditionalism ● Insularity ● Spiritualism 	<ul style="list-style-type: none"> ● Nonmarket/closed economy (home bias versus foreign bias) 	<ul style="list-style-type: none"> ● Landlockedness ● Geographic size ● Geographic 	<ul style="list-style-type: none"> ● Economic size ● Low per capita income ● Low level of

Figure 10 - Ghemawat and Siegel CAGE Framework

India/Brazil			
C	Cultural Distance	Collection of beliefs, values, and social norms – the unwritten, unspoken rules of the game – that shape the behavior of individuals and organizations	<ul style="list-style-type: none"> • Different languages, with both countries experiencing (to different extents) language fragmentation • Different religions, both countries have several religions within each one of them • According to the Hofstede Insights, a company that has developed a tool to compare countries culturally, the dimensions in which the countries seem to differ the most are: uncertainty avoidance (India being more accepting of imperfection and lack of structure vs. Brazil)
A	Administrative Distance	Historical and political associations between countries – colonial links, free trade agreements, the tenor of current relationships – affect economic exchanges between them	<ul style="list-style-type: none"> • Lack of colonial ties • India and MERCOSUR (Latin American trading bloc composed by Argentina, Brazil, Paraguay, and Uruguay) have signed an agreement in June 2003 • Relationship between the two countries seem to be healthy, however, only 26% of the Brazilian population sees India positively • Lack of common currency
G	Geographic Distance	More than how far the countries are from each other, it includes things like contiguity, within-country distances to borders, access to ocean, etc.	<ul style="list-style-type: none"> • The countries are distant with no borders in common • Circa 8-hour time difference between Sao Paolo (Nubank's HQ) and Bangalore (main FinTech center in India) • Climates and population are concentrated in the main cities but there are many differences across both countries given their sizes • Distance is enhanced by difficulties in internal navigability of the countries, with weak infrastructure
E	Economic Distance	Consumer wealth and income and the cost of labor. Others include differences in availability (or lack) of resources, inputs, infrastructure, etc.	<ul style="list-style-type: none"> • Economic inequality affects both countries, with India's top 10% of the population holding 77% of the country's wealth. In Brazil, the top xx% owns xx% of the country's wealth • Overall living conditions in Brazil seem better as the country has a higher GDP per capita vs. India (\$9.8k for Brazil and \$1.9k for India) • From a GDP perspective, both countries are economically sizeable. With India being the 5th country (\$2.6tn) and Brazil being the 8th country (\$2tn) • Cost of tech infrastructure has lowered over time in both countries with more affordable internet connection, etc.

Figure 11 - CAGE Framework for India & Brazil

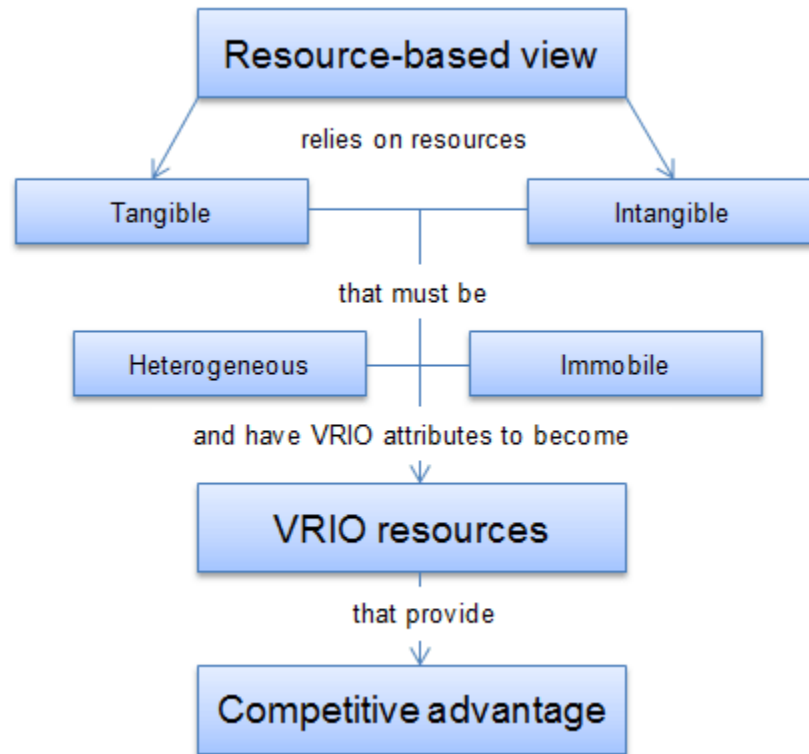


Figure 12 - Adaptation of Resource-Based View Framework

Nubank’s Tangible Resources and Capabilities

Type	Analysis	Key Takeaways
Financial	<ul style="list-style-type: none"> In Q4 2021, Nubank has posted its first positive results (i.e., profits) indicating a sign of stabilization, and product/market fit The company’s revenue streams are based on merchant’s fees (45% of revenue as of 2016), and interest, late fees, and others (55% of revenue as of 2016) – as the company expands its service offering it will be able to expand with it its revenues Nubank has deep pockets, having raised its last Series G round of \$750m in 2021 by Berkshire Hathaway and eyeing an IPO by the end of 2021 raising at least \$3bn at a \$40bn valuation 	Being a startup, Nubank’s current revenue streams are not strong enough to be considered a key resource, however, the ability to attract external capita is, at this moment, far more valuable. Based on this, the company has done a good job at attracting funding from all over the world and from different types of investors.
Physical	<ul style="list-style-type: none"> Being a digital bank focusing on minimal infostrastructure, the company does not have any significant physical resource which might benefit it The minimal approach allows the company to reduce significantly its operational costs in favor of a digital strategy 	This does not represent a resource for Nubank mainly due to the lack of its physical presence
Technological	<ul style="list-style-type: none"> Nubank is a tech company at its core, and it has developed in-house proprietary technology which allowed it to efficiently process customer data collected over time. The company might not have had the same amount of data collection compared with competitors, but it succeeded in reaping more insights from it The company decided not to outsource the technology development side as it considers it as a competitive advantage 	Tech. is a key resource as that’s where most of the company’s competitive advantage comes from, especially when compared to the less tech-oriented incumbents

Figure 13 - Nubank's Tangible Resources and Capabilities through the Resource Based View (RBV) model

Nubank's Intangible Resources and Capabilities

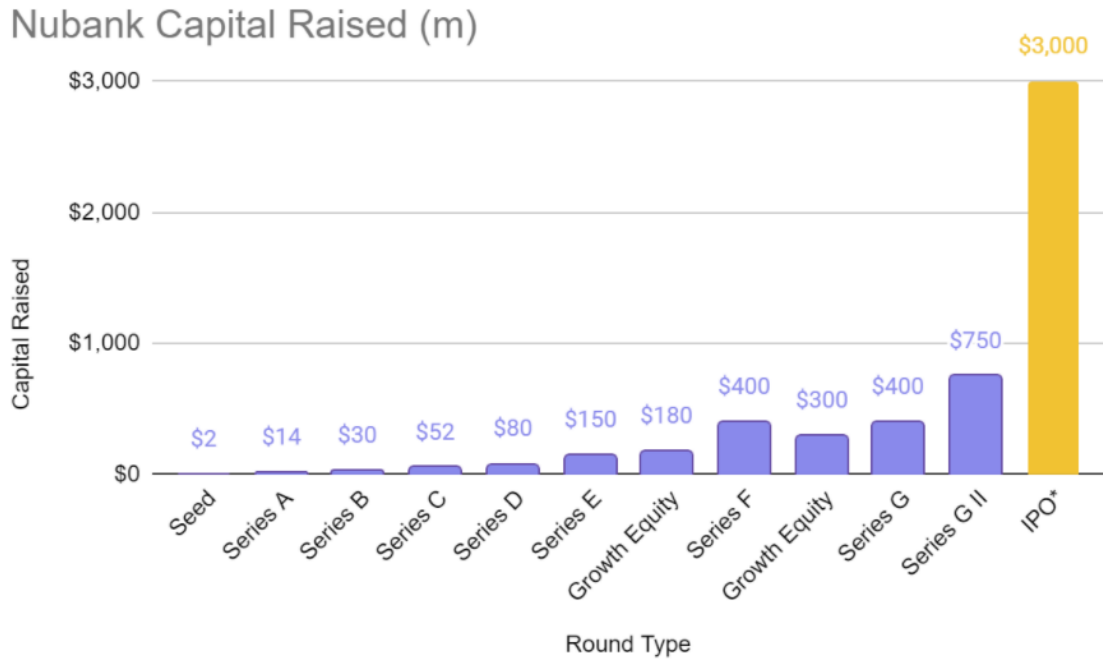
Type	Analysis	Key Takeaways
Human	<ul style="list-style-type: none"> The human capital advantage starts at the top, with the founders being very talented starting with David Velez, a Colombian who has worked for several financial institutions in the United States and who joined Sequoia Capital, one of the best venture capital firms worldwide, upon receiving his MBA from Stanford. Cristina Junqueira, Brazilian with a deep understanding not only of the country and its socio-economic conditions, but also who had built her career with one of the main incumbents, giving her market knowledge and the right connections in the industry. Lastly, Ed Wible, a computer science graduate who spent most of his career in technology private equity and who was extremely committed to the vision of the company. In addition, he was the founder who, at least at the beginning most understood the technological dynamics behind the company Because of its founders and the caliber of investors Nubank succeeded in getting, the company managed to attract some of the top-talent in Brazil, like Vitor Olivier, one of the first employees, who had spent c.3 years working for BTG Pactual, Latin America's biggest investment bank The recruitment process is ad-hoc based on the problem the company is trying to solve. It is said to be highly selective, and once people are onboarded; they go through solid trainings as well as attend sessions with the leaders of the company. In addition, Nubank prides itself of not hiring only people coming from a purely banking background but also being able to attract a diverse set of applicants. [41] Culture plays a big role in what Nubank is today. Internally, the employees at all levels are empowered and encouraged to come up with their own ideas as well as take responsibility in their jobs. Externally, the company is customer-obsessed, making it one of the most loved companies by its customers 	<p>The sum of the parts of Nubank's approach to human capital based on 1) exemplary leadership, 2) ad-hoc recruitment processes and in-house training, and 3) empowered culture make this resource valuable and hard to copy</p>
Innovation	<ul style="list-style-type: none"> Nubank has been able to get to product/market leveraging its data. The company is able to iterate fast based on established feedback loops coming from customers Thanks to its flat hierarchy and empowered workforce, Nubank manages to capture innovative ideas coming from anywhere in the company, no matter the title 	<p>Nubank's ability to stay competitive is linked to its ability to innovate – the company has built solid iteration processes</p>
Reputational	<ul style="list-style-type: none"> Nubank has one the highest Net Promoter Scores (NPS) at 87, which is well above average when compared with industry standards (34) The rate at which the company has been able to grow its customer base signals high acceptance from people who show their positive feedback often on social media (see Figure 18) 	<p>Thanks to its top-notch products and good customer service, the company has been able to build a good reputation among its customers and the investors community</p>

Figure 14 - Nubank's Intangible Resources and Capabilities through the Resource Based View (RBV) model

Statement of Profit or Loss Data

	For the Nine Months Ended September 30,		For the Years Ended December 31,		
	2021	2020	2020	2019	2018
	<i>(in US\$ millions, except share data and amounts per share)</i>				
Interest income and gains (losses) on financial instruments	607.2	293.3	382.9	337.9	161.6
Fee and commission income	454.9	241.3	354.2	274.2	157.3
Total revenue	1,062.1	534.6	737.1	612.1	318.9
Interest and other financial expenses	(190.4)	(82.6)	(113.9)	(109.7)	(45.4)
Transactional expenses	(84.7)	(87.6)	(126.8)	(79.3)	(43.2)
Credit loss allowance expenses	(281.0)	(113.8)	(169.5)	(175.2)	(118.6)
Total cost of financial and transactional services provided	(556.1)	(284.0)	(410.2)	(364.2)	(207.2)
Gross profit	506.0	250.6	326.9	247.9	111.7
OPERATING EXPENSES					
Customer support and operations	(124.7)	(95.5)	(124.0)	(115.6)	(46.7)
General and administrative expenses	(404.7)	(184.4)	(266.0)	(199.9)	(84.7)
Marketing expenses	(45.1)	(11.5)	(19.4)	(41.8)	(6.4)
Other income (expenses)	(13.2)	(25.4)	(9.5)	(19.9)	(7.3)
Total operating expenses	(587.7)	(316.8)	(418.9)	(377.2)	(145.1)
Finance costs – results with convertible instruments	—	(13.2)	(101.2)	—	—
Loss before income taxes	(81.7)	(79.4)	(193.2)	(129.3)	(33.4)

Figure 14 - Nubank's Statement of Profit and Loss as of the end of 2021



*IPO: as the time of writing the IPO is still being handled, therefore the numbers are only projections

Figure 15 - Nubank's Capital Raised since 2013 (founding year)

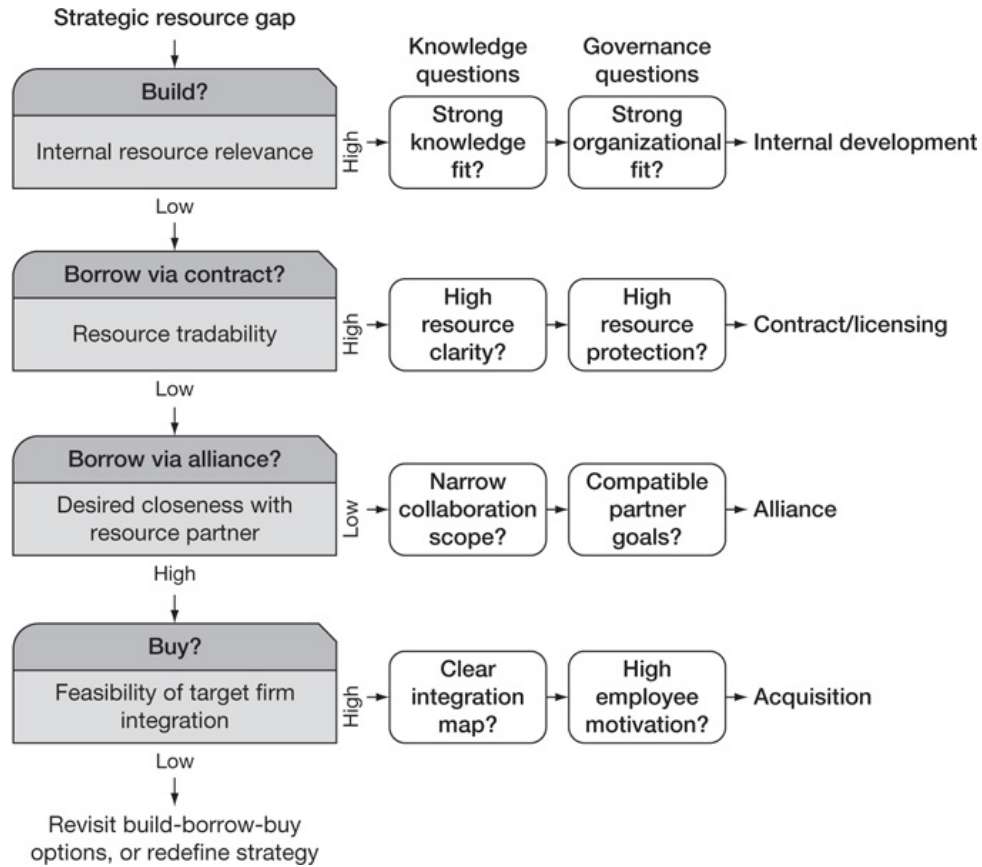


Figure 16 - Build, Borrow or Buy Framework

Nubank’s Build, Borrow, or Buy – Jupiter [1/2]



Type	Pros	Cons	Key Takeaways
Build	<p>When: companies have internal resources (e.g., knowledge base, processes, etc.) similar to the new resources needed</p> <p>Knowledge fit (how closely the existing knowledge aligns with the targeted resources)</p> <ul style="list-style-type: none"> Nubank has accumulated significant knowledge within the financial industry, assuming the product development would follow a similar strategy the company could succeed <p>Organizational Fit (compatibility of established systems with the targeted resources)</p> <ul style="list-style-type: none"> These should not differ significantly from the targeted resources 	<p>Knowledge fit (how closely the existing knowledge aligns with the targeted resources)</p> <ul style="list-style-type: none"> Despite the significant knowledge, India represents an entirely new market – even when considering the underlying economic similarities and similar behavior in the population (see CAGE section) Tweaking the product to the new country is a challenge <p>Organizational Fit (compatibility of established systems with the targeted resources)</p> <ul style="list-style-type: none"> These should not differ significantly from the targeted resources 	<p>The project could be defined as a close-knit project based on a good level of knowledge and organization fit. However, it is good to keep in mind the possible shortcomings, in particular, the time it takes to build such capabilities when operating in a fast-moving industry, the significant resources needed to start such projects, and a set of external variables relative to the Indian government and its policies</p>
Borrow (via alliance)	<p>When: companies have internal resources (e.g., knowledge base, processes, etc.) similar to the new resources needed</p> <p>Narrow collaboration scope</p> <ul style="list-style-type: none"> N.A. <p>Compatible partner goals</p> <ul style="list-style-type: none"> There are symmetrical learning opportunities, meaning Nubank would be learning from Jupiter knowledge on the market, and Jupiter would tap into deep knowledge about how to build a best-in-class digital-first financial product 	<p>Narrow collaboration scope</p> <ul style="list-style-type: none"> The collaboration scope would be quite broad <p>Compatible partner goals</p> <ul style="list-style-type: none"> Partnering with Jupiter would not be ideas as there is a high level of competitive overlap, meaning Nubank and the India-based company have very similar objectives resulting into potential tensions 	<p>Despite this option being cheaper and more flexible compared to acquisition, it poses serious problems in the long-term, mainly driven by overlapping goals and objectives, and too broad of a scope</p>

Nubank's Build, Borrow, or Buy – Jupiter [2/2]



Type	Pros	Cons	Key Takeaways
Buy	<p>When: companies have understood that either the build or borrow options are not viable</p> <p>Clear Integration Map</p> <ul style="list-style-type: none"> Nubank has already expanded successfully through acquisition in Colombia and Mexico which is a good signal when it comes to being able to create an effective integration map The expansion to Colombia and Mexico, from a timeline perspective was quite fast, if Nubank were able to replicate this it would be extremely advantageous for them as speed is one key factor when considering acquisition <p>High Employee Motivation</p> <ul style="list-style-type: none"> Nubank's culture is a signature strength of the company, and combined with its good international reputation, Nubank could be able to attract significant talent to Jupiter as well as retaining key people Post-merger integration skills are key for a successful acquisition, considering past acquisitions Nubank has the potential to make a new acquisition work 	<p>Clear Integration Map</p> <ul style="list-style-type: none"> Integration might be problematic due to the differences between Brazil and India (explored through the CAGE framework), despite having expanded before <p>High Employee Motivation</p> <ul style="list-style-type: none"> With the entry of a new owner for Jupiter, the workforce might think of moving somewhere else should culture & value not be well-aligned 	<p>Assuming a clear integration map and the ability to keep high employee motivation (e.g., maintain and attract talent) Nubank's acquisition of Jupiter could be very successful</p>

Figure 17 - Build, Borrow or Buy Framework - Nubank & Jupiter Analysis

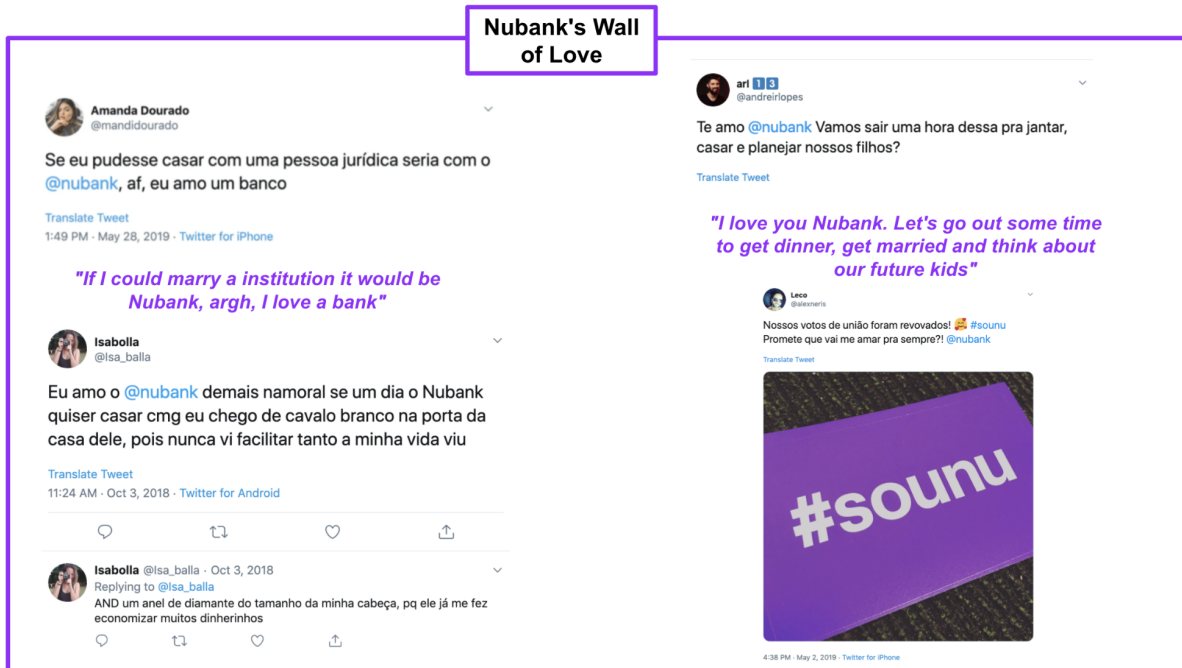


Figure 18 - Nubank's customers publicly praising the company and its customer service