MTE Growth Strategy: how do we escape from here?

Nour Ben Tahar

Dissertation written under the supervision of

Professor Nuno Magalhães Guedes

Dissertation submitted in partial fulfilment of requirements for the MSc in International Master of Science in Management with Specialization in Strategy and Consulting, at the Universidade Católica Portuguesa, September 2024.

Abstract

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Author: Nour Ben Tahar

The dissertation presents the Case Study of Mission to escape and its current strategic decision-making dilemma on the appropriate growth strategy to pursue. The Case addresses the challenges and potential growth alternatives for a Portuguese SME operating in the niche market of escape game rooms. Different growth strategies are investigated such as market penetration, diversification, and internationalization. The Case also explores strategic, operational and market challenges faced by the company.

The literature Review addresses the main strategic issues raised by the case. When combined with the case study, it helps guide class discussion around growth strategies and market dynamics within the highly fragmented and competitive escape game room market in Portugal.

The analysis included in the Teaching Note concludes on proposed actionable next steps to address the firm´s challenges and appropriate growth strategies which include internationalization through franchising, prioritizing operational efficiency over innovation and capitalizing on network and strategic alliances.

Keywords: Growth strategy, Market Penetration, Diversification, Internationalization, Entertainment Industry.

Resumo

Título da dissertação: Estratégia de crescimento do MTE: como saímos daqui?

Autor: Nour Ben Tahar

A dissertação apresenta o Estudo de Caso da Mission to escape e o seu atual dilema de decisão estratégica sobre a estratégia de crescimento adequada a seguir. O Caso aborda os desafios e as potenciais alternativas de crescimento de uma PME portuguesa que opera no nicho de mercado das salas de jogos de fuga. São analisadas diferentes estratégias de crescimento, tais como a penetração no mercado, a diversificação e a internacionalização. O Caso também explora os desafios estratégicos, operacionais e de mercado enfrentados pela empresa.

A revisão da literatura aborda as principais questões estratégicas levantadas pelo caso. Quando combinada com o estudo de caso, ajuda a orientar a discussão na aula sobre estratégias de crescimento e dinâmicas de mercado no mercado altamente fragmentado e competitivo das salas de jogos de fuga em Portugal.

A análise incluída na Nota de Ensino conclui com a proposta de próximos passos para enfrentar os desafios da empresa e estratégias de crescimento apropriadas, que incluem a internacionalização através de franchising, dando prioridade à eficiência operacional em detrimento da inovação e capitalizando em redes e alianças estratégicas.

Palavras-chave: Estratégia de crescimento, Penetração no mercado, Diversificação, Internacionalização, Indústria do entretenimento.

Acknowledgements

The elaboration of this Thesis was a difficult yet fulfilling process that marks the final step toward the obtention of my international MSc degree in Management. I wanted to take a few moments to showcase my gratitude toward the people that shaped this journey.

First, I would like to express my sincere gratitude to the three partners of Mission to Escape, Miguel Correia, Diogo Carvalho and Tiago Duarte for their valuable time, trust, and collaboration in the creation of this Case Study. I wish them the best of luck in MTE future endeavors.

Second, I would like to thank Professor Nuno Magalhães Guedes for his continuous support, availability, and valuable feedback throughout the Thesis development process. His patience and insights made this Thesis possible.

Moreover, I would like to thank all the professors and faculty members that made my Master´s degree journey both remarkable and unforgettable.

Furthermore, I would like to express my heartfelt thanks to my parents, who have always believed in me, made countless sacrifices, and encouraged me to reach my full potential. Their unwavering support and encouragement motivated me to pursue this Master's degree, and without them, none of this would have been possible.

Lastly, I would like to express my profound appreciation for my friends, who have been my emotional support system and have cheered me up along this challenging journey.

Muito Obrigada a Todos!

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1. Mission to Escape Case Study

In a warm Afternoon in July 2024, Miguel Correia the managing director of Mission to Escape (MTE) LLC, a Portuguese escape room group, was analysing the preliminary figures for the first semester of the year. He couldn't help smiling at the promising numbers as the strategy designed amidst the Covid-19 pandemic of venturing into an untapped market, the Portuguese shopping malls, was proving to be successful.

Two years earlier MTE embarked on national expansion journey. It started opening new stores in various locations across Portugal while simultaneously diversifying its products and games portfolio. In less than two years, the company grew from a 2 thousand euros monthly revenues to a 2.5 million valuation.

Now, as the company continued its national growth, Miguel Correia contemplated the possibility of international expansion. MTE had already a number of operational challenges, thus uncertainty loomed large. Should the company prioritize national and internal development over international expansion? Did MTE have the necessary resources and operational readiness to venture to new markets or new products? What was the best way forward to ensure MTE growth? Miguel knew that timing was everything as he pondered on these questions.

Company's Background

Founded in 2015, MTE had humble beginnings in a 90 square meter store in Rato, Lisbon. It started as a passion project between two friends, Diogo Carvalho and Tiago Duarte, that met 18 years earlier and decided since then to one day build a company combining both business and fun. The two founders were directors in different Big4 Portuguese consulting firms and wanted to create a business where they could have fun and explore their creativity. The original store contained only two escape room concepts based on Portuguese culture, Discoveries and Oporto wine, intended to cater to tourists visiting the city. After a fateful encounter with the famous Portuguese businessman Mario Ferreira, when he came one day to play a game in this small escape game store in Rato, the founders were inspired to scale up the business. It was at this time that the company changed from Mystery to Escape to Mission to Escape. Moreover, the company moved to a bigger store in Arroios (see Exhibit 1) and developed 6 new escape room concepts (See Exhibit 2) based around popular films and TV shows in order to appeal to a wider audience. Simultaneously, the founders made the decision

to explore the B2B segment with specific offerings. These strategic decisions paid off as the company´s growth was on an upward trajectory until Covid-19 arrived. Like almost every business, MTE had to completely reinvent itself to survive the pandemic. It became very hard to ensure its survival in these hard times and the company desperately needed a new leader to assure its growth. In January 2021, a 28 year old Miguel Correia took on the challenge to become the managing partner of MTE. The company survived and thrived post pandemic, and Miguel Correia was distinguished as one of the '10 best startup CEOs' by Lisboa Investments.

Products

MTE diversified its product and service offering in the span of 9 years and had now a portfolio of experiences for its B2C and B2B customers.

Escape rooms:

Escape rooms were the original and core product of the business. As the company grew and changed its product direction so did the games from its original two launched in 2015. Between 2017 and 2021, the escape room themes became movies and TV shows based as it appealed to wider demographics. It had at that time 6 escape room concepts that were: Prison Break, DaVinci Code, Ocean Five, Indiana Jones, 008, White house. As the national growth strategy changed, and the locations expanded, so did the escape room concepts. Currently, each location had its own games based on popular movies and TV shows. In Lisbon there was: Prison Escape, Da Vinci´s mystery and the Heist. In Loures there was: Wizard School 9 ¾, Wizard School HGWRTS, 008 Licence to Escape, Alex Rider Spy Academy and Viruzero, a horror escape room concept. In Gaia there was Wizard School 9 ¾, Wizard School HGWRTS, S.W.A.T Intervention force and space wars. Finally, in the Açores there was Turn the Tide concept a special outdoor experience based on the popular Netflix series that also enabled the customers to play while exploring the beauty of island landscapes. Each escape room was rated on a level of difficulty from 1 to 5, has a duration of 60 to 90 minutes and was supervised by a game master.

TeamScape: escape without leaving home.

Amidst theCovid19 pandemic, MTE had to adapt its offerings to survive. In 2021, the company created an online game catering for both B2B and B2C. Teamscape provided not only a teambuilding solution for companies during social distancing times but also was

marketed as a way to enhance remote working skills since it required verbal and nonverbal skills from corporate teams. Players were divided into teams that had access to different clues and puzzles and it was necessary to leverage verbal communication, screensharing, tools to exchange data and all the essential tools for collaborating in a remote environment. This product was a success and saved the company during hard times.

Product and Service Launch

Back in 2017, MTE helped Red Bull launch the orange flavour through an innovative campaign of 10 hotel rooms in Algarve transformed into escape rooms with a concept built around this new flavour. This launch was a success and inspired the firm to create this service. Now, MTE became a trusted partner for several marketing agencies for out of the box launch campaigns. MTE helped launch almost everything from phones, to vacuum cleaners, biscuits, albums, TV series, in partnership with big names such as Sony, Dyson or Huawei. This proved to be a lucrative service.

Mobile Escape Rooms

In 2022, MTE offered the first escape room inside a mobile vehicle in the Iberian Peninsula. The AXN S.W.A.T Escape Van (see Exhibit 3) was based on the successful AXN series and developed within a MTE partnership with Sony´s AXN TV Networks. This product allowed MTE to deliver escape rooms virtually anywhere in Portugal at a lower cost for events, or at an hotel in Albufeira in partnerships with the Grande Real Santa Eulalir Resort. This product was one of MTE´s unique selling propositions as it allowed it to uberize the concept of escape rooms and deliver it at the client door. MTE further developed the concept of mobile escape rooms with the Escape the Boat concept, which was exactly as it sounds, an escape room within a moving ship.

Team Building, Recruitment and Training

MTE had developed various solutions for the B2B sector making it one of the leaders in the Escape Room category. Other than the Teamscape online game, MTE developed other team building offerings (see Exhibit 4) whether in its own stores utilizing the existing escape rooms or bringing customized games that could be installed in the client premises. Some of these customized offering included Mystery Box and Escape in Minute concepts. Escape in a Minute consisted in a series of challenges that teams had to solve in under a minute and could be either cooperative or competitive depending on the setting. The Mystery Box concept

consisted in a box that included various puzzles and codes for teams to solve and could be customized to the company's needs.

Some of the previous clients of MTE for this solution included big names such as IKEA, SONAE, Jerónimo Martins, EDP. MTE had also diversified its B2B corporate offering by creating recruitment processes based on escape room dynamics for Portuguese Big4 consulting firms such as Deloitte and KPMG. Through standard or custom escape games, recruiters could practically observe and evaluate the desired skills of potential hires, such as reasoning, teamwork, time and resource management, etc. in a simulated environment. Moreover, the company developed training solutions for B2B through play-based learning. Over the years MTE partnered with significant clients such as Volkswagen and Filorga in the development and delivery of customised training for middle and senior managers, adapted to a wide range of subjects, both in person and remote.

Birthdays and Events

Early on in its development, MTE made the decision of including event space in each of its stores which made it the only escape games company in Portugal to do so. This allowed it to be able to offer birthdays/other party hosting options for B2C but also to host corporate events on its premises. This space could be customized to host events before or after playing the escape room games. Complementary catering options were also offered for this service as well as hosting and transportation. There was also the option to deliver this service on the client premises/outdoors utilizing MTE mobile escape rooms. Mission to escape had previously managed events with up to 1400+ people (see Exhibit 5).

Franchise

Back in 2017, the company thought about creating a franchising model to open a store in Oporto center. However, this project was quickly abandoned once the Covid-19 pandemic arrived and franchising remained a theoretical service offering of the company. All three partners believed that franchising would be a good option for MTE to continue its expansion at a lower cost. However, management was not sure about how to make this option financially viable, as it was unsure about the appropriate franchising option and rates were not clear. Moreover, preserving the quality of the customer experience was of high concern when it came to franchising. Miguel Correia believed that setting up an appropriate franchising model for MTE was one of the strategic priorities within the next two years.

Operational Model

In 2021, MTE had only one store in Lisbon. The organizational structure included two founders, Miguel as a managing director, a store manager and three game masters. The game masters were responsible for the customer experience, guiding and supervising each game. The average length of a game was between 60 to 90 minutes depending on the experience chosen by the customer. However, Miguel believed that the ideal store structure would include one store manager and four game masters for an optimal instore experience. Each store manager would be a full-time employee while the game masters would be outsourced part-time employees.

As the company embarked on its national expansion strategy, it went through a significant organizational and operational transformation. MTE expanded its team to include a marketing department including a full-time marketing manager and two outsourced part-time employees responsible respectively for design and digital marketing. Moreover, a team of five employees was responsible for the production and execution of new game concepts, including Tiago Ferreira, the technical director. Within two years, the organizational structure grew from two full-time employees to fifteen people.

One of the first operational challenges that MTE faced when scaling up was how to do it rapidly. MTE internal team was responsible for the entire creation process of escape rooms from conceptualization to production and execution. However, this process took a long time and MTE was missing its targeted deadlines for new store openings. It was quickly decided by management that execution and production processes needed to be outsourced to a specialized third party while the internal team continued to manage the conceptualization and scenario creation part since it was considered one of the core components of MTE´s competitive advantage. While this strategic decision enabled the team to accelerate the process, innovation was still constantly prioritized over operational efficiency. As new stores opened, the team chose to create new games for each store instead of reusing the same concepts and games that were already conceived in other locations. This created further delays, more costs and, overall, less operational efficiency. Management believed that a plug and play model would be a more efficient scaling up strategy. In the words of Diogo Carvalho:” we should start following the green instead of the dream”.

Another significant operational challenge that the company faced was how to make off peak hours profitable. Since most of the company's stores were located in shopping malls, MTE

had to comply with the malls' operating hours. However, as an escape room business, MTE was most profitable on the weekends when customers had the freest time. During weekdays, most games were played after 6PM, i.e., after school or work hours. This meant that during weekdays from, 11 to 6pm, the company was incurring operational costs without much profit. Moreover, the company had to staff people after the 6PM customer traffic increased. While weekends provided a steady stream of business, relying solely on weekend revenue was unsustainable. Most locations recorded 40 to 60% of their total number of players coming during the weekend and only 8 to 11% of the total number of players in any other weekday. The only exception was the Alameda location that while also having more players during the weekend (35% of all players) it maintained an average of 14% of total players any other day of the week. The average occupancy rate of rooms across locations was 55%. Some locations were bigger and more popular and drove on average 900 to 1200 players per month while smaller and newer locations had more modest numbers on average 200 to 400 players per month (these numbers concern solely the escape game rooms within stores and no other products of the company).Thus, management was unsure on how to drive more traffic during the off-peak hours and how to staff for optimal operational efficiency and increased profit.

An additional market challenge that MTE faced was the lack of suppliers. MTE outsourced the production and execution of games to its partner “Boomland”. This partner was responsible for the creation of the look and feel of the escape rooms based on the scenarios created by the MTE team. Moreover, it had another partner “Ha Ha Ha Shop” a Chinese supplier responsible for the creation of props for the games. However, there were very few specialized suppliers in the market. Thus, MTE was heavily dependent on them and did not have a lot of leverage when it came to delays in production or prices. A vertical integration of these processes would be very costly and might result in a lesser quality and thus was not considered a viable option by the company.

Market Dynamics

MTE games were usually played in teams of 2 to 6 players. Children from the age of 6 to 14 could play if accompanied by adults. The B2C target customer was very broad. MTE initially adopted a bundled pricing strategy such as the more players per game the less was the price per person. However, once MTE ventured into shopping malls, it introduced a new pricing model: a fixed price which was 17.5 euros per person regardless of the numbers of players per game. This approach distinguished MTE from its competitors that continued using bundled

pricing. The prices of competitors on average were: 50-65 euros for 2 people 60-80 euros for 3 to 4 people, 80-95 euros for 5 people and 100+ euros for 6 people or larger groups. This made MTE highly competitive for small groups such as 2 people, but the prices evened out for larger groups. Observations showed that the most common customers were families and group of friends from 20 to 35 years old. Young adults represented 25 to 50% of the total number of customers, while people younger than 18 years old represented 20 to 40% of the total number of players.

The second target of MTE was the B2B mainly companies that utilize the escape rooms for team building activities. The B2B market was considered by far the most profitable. For the games played inside the store, the price was fixed and the same 17.5 euros like for B2C. Regarding other B2B services that were "outside the store", MTE had bundle prices. For Escape the Van, Escape in a Minute and customized Mystery Box prices see Exhibit 6. Other B2B service prices are dependent on B2B needs.

Competition

Escape rooms originated in the US 18 years earlier and were a small niche market until recently. In Portugal, they were becoming more popular as international players such as Game Over and Escape Hunt opened stores in the country. In Lisbon, major competitors include Game Over, Escape2win, Safarka, lx Escape, Escape Hunt and Puzzle Room. These competitors were based in Lisbon with most of them having only 1 store, with the exception of Game Over that had 2 locations in Lisbon one in Bairro Alto and the other in Santa Clara. Bigger competitors had on average 6 to 9 escape rooms per location while smaller competitors had only 2 to 3 escape rooms per store. The capacity per room was highly variable among competitors, some accommodating only up to 4 people while others up to 10 people per game. Most of the competitors offered original escape game room concepts except Game Over that offered escape game room concepts inspired from popular TV series and movies, similar to MTE approach. Moreover, most of these competitors had birthday offerings and corporate events such as team building, virtual events and recruitment offerings. Safarka, for example, offered a concept similar to the Mystery Box of MTE while Puzzle Room offered product launch services. However, MTE managers considered that they had the most comprehensive corporate product offering.

The second biggest cluster of competitors was in Porto. The biggest players included Occultus, D3, Exit Games, Cubus and Ás de Copas. The competitors were only based in Porto and had solely one location. Bigger competitors had 5 to 7 escape rooms per location while smaller competitors had only 2 to 3 escape rooms. The capacity per escape game room was similar to the competitors in Lisbon. Most competitors in Porto offered a mix between original games and games inspired by popular TV shows and movies. The corporate offerings while present were limited to team building (Exhibit 7 includes the prices for several competitirs).

Mainstream awareness of the concept as an entertainment option still was very low. 70% of the customers that tried MTE games declared that they had never tried escape rooms. There was a huge untapped market. Moreover, 70% of customer that came for an MTE game did come back again. This customer satisfaction was translated in customer online on average between 4.5 to 4.9 over 5. Most customers pointed out very positive experiences especially on customer service and how they were treated by the staff. Some few critiques pointed out the look and feel of the props and an expectation of a higher difficulty for the games.

When customers were making decisions on entertainment, escape games were not top of mind as other options such as cinema or trampoline parks. The market was nonetheless growing fast over the years. Miguel declared:" Our biggest enemy was not other escape room companies but the lack of awareness of the general public". MTE tried to counter this through both a reactive and a proactive approach. It launched the "escape room week" concept where it partnered with some of its competitors to divide their prices by half for a week and advertise this initiative through media agencies. However, this drew sales only for a limited time and a proactive approach needed to be kept whether through event participation or digital marketing. The company recognized that a mixed marketing strategy was to be implemented and hired an event manager and a marketing one. The majority of MTE customers across locations declared that they knew about MTE thanks to word of mouth and social media such as Facebook, Instagram and TikTok. Event-based promotions also played a significant role in attracting customers(see Exhibit 8). Digital marketing, particularly through social media platforms, was heavily utilized to engage with a broader audience. However, further investments in that front needed to be made in Tiktok for example to better reach a younger audience.

National Expansion

When Miguel joined MTE, the average monthly revenue was around 2000euros. Through strategic decisions made in shifting the games concepts, providing online game and targeting B2B, the company not only survived the pandemic but also increased its revenues to around 157.000 euros yearly.

During the pandemic, in March 2021, MTE contacted CBRE and organized a team building event for them which was successful and led CBRE to offer MTE an opportunity to have a pop-up store at their Loures mall. Miguel and his team invested all their revenues to acquire and open a 594 square meter space in Loures Shopping with 4 new game concepts. This risk paid off as this venture proved to be successful.

By the end of 2022, MTE set up a meeting with a venture capital firm; Portugal Ventures to raise funds. They ended up raising 500k in exchange for 20% equity in the company. The agreement was to utilize these funds in two main objectives. First, to find a partner to outsource game production and execution in order to accelerate game production. Production efficiency was specifically needed for the second objective which was opening more stores and pursuing national expansion.

After the successful launch of the Loures Shopping store, SONAE a leading Portuguese shopping center developer, contacted MTE and invited the team to open a store in Arrabida Shopping. Since then, MTE embarked on a national expansion journey. In 2023, it opened Arrabida shopping in Gaia its first in the north of the country with 4 new games. In 2024, It opened a store in Alameda Shop and Spot in Porto. For the second semester of 2024 and first semester of 2025, MTE had plans to open three stores in Braga, Coimbra, and Setubal.

The choice of expansion through shopping malls was very deliberate and offered MTE various advantages. First, it was a location that distinguished it from its competitors since it was the only escape room company in Portugal operating in shopping malls. Second, it allowed MTE to get a lot of exposure from shopping mall visitors. One of the biggest pain points of the business was the lack of awareness about the escape room concept. Shopping malls offered an organic way to get exposure to a wider public as visitors could stumble upon the concept and got introduced to it. MTE games allowed visitors to stay for at least 60 minutes, which was very beneficial for malls and allowed MTE to build a relationship with shopping centers translating into very good rent conditions. Another advantage was that it enabled MTE to expand at a lower cost. Expenses such as construction, water, electricity, etc., were covered within the good rent conditions and concerns such as neighbourhood safety

were absent within this expansion model. Moreover, MTE targeted second tier shopping malls to further lower its costs.

International Expansion

As the national expansion was on an upward trajectory, MTE considered international expansion as a way to cut costs through economies of scale. The Portuguese market was deemed relatively small by the company as it believed that after the opening of the stores planned for 2025 there was small room for expansion. Miguel considered Spain as the easiest market to expand to, and, due to its geographical and cultural proximity as the obvious next move. The ratio of number of escape game rooms per citizen in major Spanish cities was deemed positive and there was room for expansion. If the company were to open a store in Spain, management was unsure about the optimal internationalization model for it. Moreover, Miguel expressed his concerns regarding the management structure as he declared:" I do not think I can be the CEO for both Portugal and Spain". Tiago believed that it could be done either the "McDonalds way" through franchising or "the Starbucks way" through owned stores. Tiago expressed that his ultimate goal for MTE would be to build a "McDonalds model" and expand throughout Europe but agreed with the other two partners that MTE should have at least one owned store abroad beforehand to test out the market, add credibility and better guide potential franchisees.

MTE did not have an appropriate franchising model. The company was uncertain about setting appropriate commission rates from franchisees to make franchising financially viable and ensuring the preservation of the high-quality customer experience that was integral to the MTE brand. The management believed that MTE needed a solid portfolio of plug and play games to offer to its potential franchisees.

The owned stores model was also considered as a viable option for internationalization. MTE could capitalize on its solid relationships with CBRE and SONAE to expand with the same national strategy: through shopping malls partners in Spain. Both options had the embedded assumption of finding appropriate funds to finance this new venture.

Other than finding the appropriate internationalization model, the second biggest concern was timing. MTE was not sure whether the company was ready to expand internationally as it did not have enough time to gain experience in managing multiple stores at once. Additionally, some operational efficiency concerns were still unsolved. The company believed that it

needed to find suppliers equivalent to Boomland in Spain. Finally, the company was unsure whether it had the appropriate resources either human or financial to expand. The cost to open a new store in Portugal with three or more rooms was estimated to to be around 65 to 90.000 euros.

Diversification

MTE Management, specifically Diogo and Miguel, also explored a diversification strategy within Portugal. They analysed their most popular game concepts and considered introducing a completely new entertainment experience that, while totally distinct from escape rooms, would still be based on their most popular game concepts. This entertainment experience would be akin to an attraction park experience where customers would come to experience different attractions and play different games under one specific theme.

Tiago had a more cautious approach and disagreed with his partners as he believed that this option stemmed from the fear that escape rooms, the core business of MTE, would no longer be trendy and would disappear like other entertainment options that were previously popular such as paintball. He believed that MTE should instead focus on its core business and perfect it in order to reach a "McDonalds expansion model" and grow.

The Future

MTE was at a crossroad. While it was in an upward trajectory, Miguel knew that the only way to sustain it was to grow. However, he and his partners faced uncertainty about the best way forward. Various options were available: continuing national expansion, internationalization, franchising, diversification, operational development or a mix. Miguel understood that MTE couldn't pursue everything at once and that choices had to be made. Timing was critical to seizing the opportunities ahead and the future looked uncertain.

2. Literature Review

In the literature review section, three main topics will be: International expansion, Diversification and Market penetration. These three topics align with Mission to Escape main dilemma in the Case Study as the firm is unsure about the appropriate growth strategy to adopt. The exploration of the state-of-the-art academic literature of these three growth strategies is useful the analysis that will be provided in the teaching notes and will offer practical guidance for decision-making in similar business contexts.

2.1 International Expansion

Internationalization has been defined as a process in which the firms gradually increase their international involvement i.e., their commitment to foreign markets. The earlier research on international expansion theorized that this gradual foreign market entry is driven by incremental acquisition of market knowledge which leads to increased market commitment. This was known as the Uppsala Model. This view has both deterministic and dynamic elements to it (Johanson, J., & Vahlne, J. E., 1977).

With the rise of concepts such as the dynamic capabilities (Teece, Pisano, & Shuen, 1997) in which firms utilize their competencies to adapt to external, rapidly changing environments, some of the deterministic elements of this view were challenged as its constructs were viewed as interacting and overlapping with international expansion rather than causing it (Lamb & Liesch, 2002). More research that adopted a more dynamic view of the internationalization process of firms emerged.

The Network model of internationalization (Johanson and Mattsson, 1988) suggested that international expansion of firms was usually a process that was done through its network of relationships such as with its customers, suppliers, partners, etc. which may make the process less gradual and predetermined. These Networks would provide the resources and market access needed for expansion and would make the process more dynamic. Thus, the process comprises two dimensions: the degree of internationalisation of the firm and the degree of internationalisation of the market (Johanson and Mattsson, 1988; Johanson and Vahlne, 1990).

The “Born-Global firms " (McKinsey & Co. 1993, Rennie, 1993, Knight/Cavusgil, 1996) are companies that internationalize in their early stages from or near their foundation which

challenges the traditional gradual approach. This type of firms has some common characteristics such as innovation and technology leverage, entrepreneurial orientation, and niche markets. Moreover, these firms typically adopted international expansion strategies through utilizing networks to accelerate growth and innovative marketing. (Knight, & Cavusgil, 2005). These firms usually have a board with a significant international experience and are backed by venture capital (Gleason et al., 2006). However, research suggests that a more gradual expansion, Uppsala model like, is particularly common among SMEs (Figueroa et al., 2014).

There are many internationalization strategies that a firm can utilize to expand to foreign markets, such as the following:

Strategic Alliances are partnerships between two independent firms, In this context the firms collaborate to expand internationally, where usually the alliances are either equity or non-equity based. These alliances help firms to lower the risk by sharing the cost and accessing local knowledge and are particularly useful in markets impacted by technology changes (Contractor and Lorange ,1988)

Franchising is an entry mode where the franchisor gives the right to the franchisee to have a business under its brand (in this context in a foreign market). Franchising can help firms lower the risk by accessing the franchisee´s knowledge of the local market and with less cost and are particularly useful for culturally distant markets (Elango and Fried, 1997). It also allows to scale up fast internationally. However, to have clear contractual agreements and strong brand reputation are important for quality insurance of the brand (Dant and Kaufmann, 2003).

Wholly owned subsidiaries are when a company opens a fully owned business in another market. This method of entry allows the firm full control and to keep all the profit. However, it has also significant risk since it bears all the cost. This mode is particularly useful for firms who have the resources and are in high growth markets (Chang, 1995).

Joint venture allows two firms, usually from different countries, to have a third legal entity used to internationalize. This mode is particularly useful in industries that require substantial investments and markets that favours local participation, (Kogut,1988).

The choice of the market to expand to is a complex strategic decision that depends on many factors. In the OLI (Ownership, Location, Internationalization) framework (Dunning's,1998),

firms chose markets where they can exploit their ownership advantages such as reputation and location specific advantages. This framework suggests that this decision is typically an assessment of fit between competitive advantage and market opportunity. Firms usually chose markets that are geographically close to their region to maximise their competitive advantage (Rugman and Verbeke, 2003).

SMEs usually adopt an opportunistic or a non-systematic approach to internationalization rather than a systematic one. This aligns with previous research that suggests that SMEs often lack the resources or capabilities for a formal market analysis. For the SMEs that use a systematic approach, the decision is often influenced by firm specific factors (type of product, management characteristics, firm size) and host country factors (market and country attractiveness) rather than entry barriers factors such as geographical or cultural distance factors which tend to have less impact on their decisions. This finding is rather surprising since traditionally these factors are considered important and may suggest that SMEs are becoming more adept to overcome these barriers as they become less relevant in today´s globalized business environment. Moreover, there is a positive relationship between firm size among SMEs and the adoption of a systematic approach which suggests that as SMEs grow they develop a more formalized decision making process. Finally, this study found no significant relationship between systematic approach and factors like international experience or number of foreign markets served or export intensity which means that the systematic approach cannot be simply explained by the cumulation of international experience (Musso & Francioni, 2012).

Many factors determine the success of an internationalization strategy for SMEs, including but not limited to entrepreneurial orientation (Knight and Cavusgil, 2004), networks (Oviatt and McDougall, 2005), market knowledge (Johanson and Vahlne, 2009), marketing capability (Zeng et Al, 2009). SMEs can particularly benefit from a clear strategy, appropriate resource allocation whether managerial or financial, foreign market knowledge and leveraging networks. However, they often face the challenge of complexity of operating in different markets with limited resources (Bose., 2016). On the other hand, the absence of these factors might lead to failure of these SME´s international ventures. Factors like lack of resources particularly, limit the ability to invest or withstand competitive pressure which often leads to withdrawal from foreign markets (Lu and Beamish,.2001). Finally, due to this lack of resources, SMEs might find themselves spreading too thin when attempting

internationalization. They overextend without building sustainable foundation (Autio, Sapienza, and Almeida, 2000).

2.2 Diversification strategy

Diversification is a strategy by which a business expands into new product offerings or market beyond its core business to build a competitive advantage and manage risk (Kannan & Saravanan, 2012). Diversification is considered one of the major growth strategies for a firm and can be categorized into related and unrelated diversification. Related diversification (RD)refers to expanding into businesses that share significant commonalities with the firm´s core business while unrelated diversification (URD) means venturing into businesses with little to no connection to the firm´s core business.

The impact of RD vs URD strategy on firm performance is dependent on industry characteristics such as industry concentration, market size and firm specific investments. Some industries benefit from unrelated diversification strategies while others don't. In highly competitive fragmented industries, URD might be ineffective due to increased coordination cost (cost of coordinating activities across very different business areas) and distortion of market incentives (inefficiency in responding to market signals). However, in industries requiring large firm specific investments URD may be beneficial due to risk mitigation. For RD, the benefits stem from resource and competency sharing across different businesses. However, there might be an optimal level of RD beyond which performance starts to decline which is represented by an inverted U-shape in some industries (Purkayastha, 2013).

For SME´s, within-industry diversification positively impacts performance in emerging markets especially when institutional contexts are less developed (Pangboonyanon & Kalasin, 2018). Another factor to take into consideration when assessing the effect of diversification strategy on firm´s performance in emerging markets is the firm size. RD had an inverted U shape for performance with medium sized firms but did not impact performance for small firm. Performance of small firms has a U shaped relationship with relatedness in industry domains . This shows that reputation transfer is important for small firms' performance while economies of scope by cross selling is what's important for medium sized firms' performance (Dhandapani, K., & Upadhyayula, R.S. 2015).

Small firms who have corporate parents are more likely to diversify compared to independently owned ones. Agency theory suggests that having a parent company might

create agency costs which lead to increased diversification. Moreover, these small subsidiary firms have better access to resources and managerial capabilities. However, this may lead small subsidiaries to diversify in ways that do not necessarily maximize the firm´s performance (diversification for agency reasons) contrary to independent SMEs which are performance focused. Diversification may be more beneficial to independent SME´s compared to those who have parent firms. This is due to the fact that independent SMEs may need to diversify more urgently to protect against product obsolescence and market risk. Independent SMEs tend to be very aware of the risk of not being diversified due to financial vulnerability and their survival focus which may lead them to use diversification as a survival strategy. (Murphy & Tocher, 2017).

Another factor that influences the diversification strategy is competition. Higher competitive intensity is more associated with URD rather than RD and performance from adopting these diversification strategies improve as competitive intensity rises (Grigorij Ljubownikow, S. H. Ang, 2020). This is due to multiple factors. The first is risk spreading. URD allows firm to spread risk across multiple unrelated markets which reduce the firm´s vulnerability to industry specific shocks which can potentially offset the poor performance in a market with a better one in an another. Second, reduced intra firm competition. In highly competitive markets, URD may allow firms to enter in less competitive markets to achieve higher profitability without the risk of cannibalization. Moreover, URD may help firms redeploy and leverage non-industry specific resources, and capabilities which can help them create unique value in a different market. Finally, the diversification of revenue streams might help firms have a more stable financial performance.

Diversification is an attractive growth strategy option and can offer a competitive potential for firms that have exhausted profitable growth opportunities, which now became limited, in their core business (Kannan & Saravanan, 2012). The choice of diversification option (vertical, horizontal, or lateral) depends also on the companies' risk appetite (Syuzeva & Zheltenkov, 2021). Vertical diversification refers to expanding to operations in different stages of the value chain of the core business which is considerate low to moderate risk. In this case, diversification can be seen as minimizing transaction costs by internalizing activities within the transaction cost economics view (Williamson 1975). As subcategories of vertical integration, there is forward and backward integration. Forward and backward integration are strategies shaping the organization of global value chains. Forward integration involves downstream activities meaning closer to the end consumer while backward integration

focuses on upstream processes meaning closer to earlier stages of production. Contrary to popular assumption, firms that integrate both backward and forward are as common as firms that integrate only one way. Moreover, firms are more likely to integrate in stages where there is technological proximity as this helps better maximize economies of scope and in stages where there is relatively low elasticity of substitution as this helps mitigate risks of underinvestment (Del Prete & Rungi, 2019). Horizontal diversification involves expanding to businesses on the same stage of the value chain and are considered a moderate risk move. Additionally, lateral diversification is akin to unrelated diversification and is considered as high risk.

Assessment of new industry potential and the potential of competitive advantage is important for diversification decision making. One of the main benefits of diversification is economies of scope which reduce the cost of production across multiple products. These economies of scope depend on the resources and capabilities employed (Grant, 2018).

There are key elements that define the success factors for SME diversification strategies. First, strategic planning which helps improve performance and sustain growth. Second, the management capacity of the owner/manager as some SMEs are highly dependent on the owner´s managerial skills. Third, innovation, since investment in innovation enhances the SME ability to exploit market opportunities, adapt and gain competitive edge. Fourth, effective human resources management and investment in employee´s growth which help improve productivity. Fifth partnerships and networks which provide SMEs with resources, markets and knowledge as these collaborations allow SMEs to share risk and innovate. Finally, financing is critical for SME sustainability and growth and the choice of funding depends on the life cycle of the company. These factors are crucial for SME success and competitive advantage (Rodrigues et al., 2021). Over-diversification often strains top executives too thin which leads to diversification ventures failure. However, there are some internal factors that can lead to success such as selecting capable regional managers to do the heavy lifting in their respective divisions, operating the divisions like small firms which may lead to establishing competitive advantages, putting appropriate performance measures such as ROCE (return on capital employed) , providing incentives linked to performance to motivate the division managers and finally, aligning with corporate culture to make it cohesive across divisions which helps maintaining a consistent strategic decision (Kenny,2011).

Research on Spanish SMEs has revealed, however, that the adoption of both product and international diversification strategies is not associated with higher performance. (Muñoz-Bullón & Sanchez-Bueno, 2011).

2.3 Market Penetration

Market penetration refers to a strategy used by firms to expand their presence in an existing market. Along with market expansion, product innovation or diversification, it is considered one of the growth strategies a company can adopt (Syuzeva & Zheltenkov, 2021). This growth strategy alongside product development can be used to improve firm´s performance as these two approaches mediate the relationship between market orientation and performance outcomes (Filatotchev et al., 2017). Market penetration also refers to a strategy that is aimed both at increasing the frequency of usage among existing customers but also attracting new customers within the same market (Johnson, Scholes, Whittington.,2008).

Within the Ansoff matrix, it is considered the least risky strategy as it utilizes existing products and markets. However, there´s a link between market penetration and the competitive structure of the market. Highly concentrated markets tend to be more challenging to penetrate than fragmented ones. Moreover, highly competitive markets are harder to penetrate due to the threat of retaliation from competitors. Additionally, the specific market entry barriers (whether high or low) and the customer loyalty switching costs also influence market penetration decisions. In order to promote growth within this strategy, a firm should focus on marketing efforts, competitive advantage and sales promotions. Market penetration is to be used when the market is not yet saturated, when there´s possibility to increase profitability through marketing efforts and when the company wants to leverage current resources to grow with less risk (Ansoff, 1957). Some of the key factors that influence market penetration strategy are market attractiveness, customer engagement, and brand revitalization (Sen & Kannan, 2015).

Time to market refers to the duration it takes from an initial product concept to full market launch. This critical concept influences both the firm´s performance and competitive advantage (Feng et al., 2014). Time to market and market penetration have complex dynamics in product life cycle and market entry strategies. Current products usually reach a market penetration of a little above 50% before declining with an average time to dive around 8.4 years (Fenech & Tellis, 2014). The external involvements of customers and suppliers can contribute to the reduction of time to market of new product development (Feng et al., 2014).

While there´s a direct correlation between time in the market and market share, late market entrants can still gain a competitive advantage. Entrepreneurial marketing strategies such as innovation, proactiveness and cultural sensitivity can help neutralize first mover advantages. This is based on resource advantage theory and suggests that late entrants can in fact gain competitive advantage by having innovative marketing strategies that foster relationship with consumers which in turn help mitigate the disadvantages of late market entry. Moreover, both customer driven market penetration strategies and customer relationship management strategies can help late entrants improve their market share (Arshi et al., 2023). Moreover, the relationship between speed and profit is moderated by product innovativeness, with highly innovative products showing a weaker positive impact (Stanko et al., 2012).

Success of market penetration depends both on market and company factors. Market size, competition, and macroeconomic factors such as income levels influence market penetration success. Moreover, firm related factors such as reputation, pricing strategies, capabilities and investments may also predict penetration rates (Allen, 1966, Luvisia 2018). SMEs should focus on brand strengthening, product development and enhancing quality while targeting the domestic market (Rundh, 2011)

when attempting market penetration, firms may face challenges in regulations, economic factors, expertise, marketing, and management as well as economic factors (Luo et al.,2019). Moreover, firms may face challenges; first, incumbent firms create entry deterrence strategies such as cost advantages and brand loyalty which increases the cost and risk for new firms' entrants. Second, product differentiation can be a significant strategic barrier as new entrants might find it harder to differentiate their products and capture market share. Third, access to distribution channels might be considered as a structural barrier especially for industrial goods as established firms already have distribution networks and newcomers might find it hard to penetrate these channels. Another strategic barrier would be the customer switching costs as they deter customers from changing habits and switching to a new product which hinders in turn new entrants. There are also resource constraints for new entrants, including capital requirements to develop infrastructure and marketing, for example, while incumbents benefit from previous investments they have made. Finally, the intensity of competition also plays a major role as an entry barrier and can deter new entrants (Karakaya & Stahl, 1989, 2009).

In the entertainment industry, successful penetration strategies include both localisation i.e., having a product that suits local taste, and utilizing social media platforms for marketing (Lee, 2014).

2.4 Final Remarks

In conclusion, firms can adopt different growth strategies to navigate their growth challenges. For international expansion, factors such as market knowledge, networks and market fit influence the decision making. Leveraging innovation and networks would accelerate the international expansion and there are different models (alliances, franchising, joint ventures etc) that firms can adopt with different risks-reward trade-offs for each model. SMEs in particular tend to adopt opportunistic approaches to internationalization but are often constricted by resource limitation. Diversification can be another growth strategy for firms to adopt. Related diversification benefits from resource sharing and competence transfer, while unrelated diversification helps firms spread risk across different business and can be beneficial especially in high competitive markets. The success of diversification, however, depends on firm size and industry, with small firms relying on reputation transfers while medium one benefit from economies of scope. Finally, market penetration success is influenced by market conditions, competitive structure, and firm capabilities. Late entrants can overcome their disadvantages with innovative marketing. While brand loyalty, access to distribution channels and resource constraints pose a challenge, SMEs can still succeed in market penetration through localization and strategic marketing efforts. Overall, firms should align their internal capabilities and market dynamics when selecting an appropriate growth strategy.

3. Teaching Note

3.1. Learning Objectives

The Mission To Escape Case Study offers an insightful exploration into a classic business dilemma: A SME at a strategic decision-making crossroad regarding the most effective growth strategy to pursue. Set within the dynamic entertainment industry and more specifically in the niche market of escape rooms in Portugal, the case provides the opportunity to explore a range of growth strategies such as market penetration, product innovation, franchising, internationalization, and diversification.

The case challenges students to consider the most effective growth strategies for MTE to pursue while leveraging its resources and capabilities, navigating market complexities, and capitalizing on growth opportunities. With this case students will be able to:

1. Analyse the market dynamics of the escape rooms business in Portugal and their impact on MTE business strategy and decision making.
2. Understand market penetration strategies and how MTE utilized them to rapidly grow in its niche market.
3. Evaluate different growth strategies and expansion options such as internationalization, franchising, and diversification.
4. Examine how operational challenges impact growth strategies and expansion options.
5. Explore the challenges and opportunities associated with an SME seeking business expansion.

3.2 Assignment Questions

The following questions are suggested for students to prepare for the in-class discussion:

1. Evaluate MTE strategy up to 2024.
2. Identify the main challenges and alternatives open to MTE.

3.3. Class Plan

1. Evaluate the strategy of MTE up to July 2024
2. Analyse the market dynamics of escape rooms market in Portugal.
3. What are the main challenges that MTE has to overcome?

4. Explore different internationalization options for MTE, advantages, and disadvantages of each option.
5. Assess the benefits and risks associated with diversification as a growth strategy option for MTE.
6. What alternatives are open to MTE?
7. What are your recommendations for the managers of MTE?

3.4 Analysis

1. Evaluate the strategy of MTE up to July 2024.

Up to July 2024, MTE strategy centred around three key components: market penetration through strategic partnerships, customer orientation and innovation.

MTE achieved market penetration by venturing into an untapped market, the Portuguese shopping malls, making it 1) the only escape room company in Portugal present in shopping malls and 2) the only escape room company that has presence across different cities in Portugal, its national expansion model built through strategic partnerships with Portuguese major shopping mall players like SONAE and CBRE. These strategic partnerships conferred a symbiotic mutualism in which MTE provided shopping malls a positive effect on dwell time (dwell time is the time spent in the shopping mall. The more time visitors spend inside malls the more money they spend, which is profitable for the owners). On the other hand, shopping malls provided MTE with various benefits such as: less fixed costs (very good rent conditions, no electricity, water bills), organic exposure to customers and safety (no concerns about neighbourhood safety and investment in security). The financial resources were mainly provided through the external funding partner, Portugal Ventures. This national expansion model proved to be successful as it provided MTE growth with less risk while simultaneously building a network of strategic partners that provide the resources and market access necessary for expansion. Since Portugal is a relatively small market, this strategy additionally allowed MTE to expand with a relatively low risk of cannibalization. The uniqueness of its store's location confers MTE a first mover competitive advantage as it makes access to these distribution network of shopping malls harder for its competitors and less appealing (risk of cannibalization in a small market might deter competitors as it may cause price wars).

Customer orientation was achieved through location, customer experience and product offerings. First, MTE is prioritizing customer convenience by adopting the motto of “meeting the customers where they are”. MTE ensures accessibility and ease for its customers by strategically placing its entertainment experiences in shopping malls. Second, MTE ensures a good in-store customer experience by having an appropriate number of well-trained game masters at all time to provide guidance. This is evident in its operational model and in the customer satisfaction reviews that point out the service quality. Third, MTE is achieving its customer orientation through its product offerings for B2C and B2B. For B2C customers, MTE shifted its escape room concepts from games centred around discovering Portuguese culture tailored to tourists to games based on popular TV shows and movies. This allowed MTE to target a wider B2C target instead of the niche market of tourists as well as align with local tastes and entertainment preferences. Moreover, MTE included an event space in each one of its stores allowing it to offer birthday/event services to its customers and developing complementary services around it from transportation to catering which is convenient for customers. For B2B customers, MTE developed a comprehensive portfolio of services tailored to their needs from team building to recruitment, training, and product launch. MTE adopted a fixed price policy on its escape game rooms contrary to its competitors that adopted a dynamic bundle price model. For B2B customers, however, except for escape rooms, MTE adopted bundle pricing. MTE attempted to raise awareness on what escape room experience is by launching the “escape room week” concept where it partnered with some of its competitors to divide their prices by half for a week and advertise this initiative through media agencies. However, this drew sales only for a limited time and a proactive approach had to be kept through marketing efforts to increase sales.

MTE was also focused on innovation for its strategy. First, through the development of its portfolio of games by creating different escape room concepts for each one of its locations instead of having a plug and play model where MTE would have the same concepts everywhere. Second, MTE created completely new entertainment experiences with its mobile escape rooms: A.X.N S.W.A.T. Escape the Van and Escape the Boat. The mobile van, specifically, enables MTE to bring its escape games to virtually any location in Portugal, delivering the experience directly to customers´ doorsteps. This allows MTE to be “the Uber of escape games” and reinforcing the commitment to convenience and truly” meeting the customers wherever they are". Differentiation is key on the positioning of MTE along factors that will be developed further down on this analysis.

2. Analyse the market dynamics of escape rooms market in Portugal.

The analysis of market dynamics of escape rooms in Portugal will be done through Porter´s five forces framework as it will enable the assessment of the competitive forces of the market as well as its potential attractiveness.

a) Threat of new entrants:

The capital investment to establish an escape game store in Portugal with three or more rooms, is estimated to be around 65 to 90.000 euros. This can be considered relatively low which in turn makes the entry barriers low. However, MTE location in shopping malls through strategic partnerships confers to the firm a relative protection from new entrants. First, it makes securing similar prime locations in shopping malls harder for new entrants as it requires a good relationship and partnerships with this distribution network. This is evident in the fact that most of the current competitors within the market have only stand-alone stores in Portugal. Second, MTE has very favourable rental conditions which significantly cut its operation costs. MTE has somewhat established brand equity through good reputation with its B2C and B2B customers alike. However, switching costs for customers is low due to the nature of escape rooms as an entertainment option. Customers are particularly willing to try new entertainment experiences, which may drive them to the competitors 'escape room concepts. However, MTE orientation toward innovation and new concepts might secure some brand loyalty. Overall, the threat of new entrants is considered moderate to high.

b) Threat of substitution:

The threat of substitution is considered high within the escape room market in Portugal due to primarily two reasons. First, the nature of escape rooms as an entertainment offering for B2C. There is a plethora of entertainment options for consumers, from movie theatres to trampoline parks which makes escape rooms just one of 100 other options. Second, the choice of this option among others is made less likely due to the low awareness of the concept of escape rooms among the general public. Thus, consumers tend to choose substitutes with more familiar concepts when making decisions on entertainment options. This is evident in the case as Miguel Correia declared:" Our biggest enemy was not other escape room companies but the lack of awareness of the general public".

c) Rivalry

The escape game room market in Portugal is fragmented with a high number of competitors in major cities: Lisbon and Porto. However, these competitors have only stand-alone stores in a singular city. There are mostly local competitors with the exception of two international players, Game Over and Escape Hunt, present in Lisbon. The market of escape games in Portugal is growing and is expected to continue growing as indicated in the case. When it comes to B2C product offerings, most competitors have unique escape room concepts apart from Game Over in Lisbon and some in Porto that base their escape rooms concepts on popular TV shows and movies similar to MTE. Most competitors offered similar event and birthday parties services. MTE slightly distinguishes itself with a fixed price policy. For B2B, some competitors offer event and team building services, Puzzle room had a product launch service while Safarka had also a concept similar to the Mystery Box. However, MTE was considered as having the most comprehensive product offering. MTE location and some creative concepts like Escape the Van offer some competitive edge however, the market is considered moderately to highly competitive especially for MTE that is present in multiple cities which means a high number of different competitors in each city.

d) Bargaining power of suppliers

The bargaining power of suppliers is considered very high due to their limited number. MTE relies only on two suppliers Boomland and Ha Ha Ha Shop and the case mentions a limited availability of these suppliers due to the fact that their offerings are highly specialized. This confers to suppliers a high power as MTE is dependent on them which in turn limits the negotiating power of MTE in terms of production time and cost. Moreover, due to the highly specialized nature of suppliers, vertical integration by developing internal capabilities is likely to be very costly, time consuming and would render lower quality results making it a less profitable option.

e) Bargaining power of consumers

MTE targets two main types of consumers: B2C and B2B. While individual B2C customers hold relatively little power, B2B consumers, primarily large corporations, have a larger influence. MTE products are somewhat differentiated compared to the competition. However, the switching costs are still low especially for B2C customers that can have any entertainment option readily available. Overall, the bargaining power of consumers is moderate in the escape game room market.

After a overall industry attractiveness thorough analysis of escape rooms in Portugal market dynamics, we can conclude that the market attractiveness is moderate. Some growth opportunities are still present especially for MTE that has a good position to leverage them if it overcomes the challenges explored further in the analysis.

3.What are the main challenges that MTE has to overcome?

MTE has various types of challenges to overcome. These challenges can be grouped into three categories: operational challenges, strategic challenges, and market challenges.

1) Operational Challenges:

- Due to most of its stores being located in shopping malls, MTE had to comply with shopping malls operating hours. However, escape games being an entertainment option, most of the traffic was after 6PM during weekdays with weekends providing a steady stream of customers. This meant that 5 days out of 7 and during almost 7 hours, the stores were operating during off-peak hours with MTE incurring operational costs and staffing people without much profitability. Thus, MTE needs to find a solution to make off-peak hours more profitable and to find the optimal way to staff for operational efficiency.
- MTE is innovation oriented and creates new game concepts for each location and new stores. This direction allows MTE to differentiate itself but also reduces its operational efficiency as the firm cannot benefit from economies on its production. This method is also very resource consuming, taking a significantly more time to develop new concepts for each location, produce and execute them.

2) Market Challenges:

- As mentioned in the case, one of the biggest challenges in the market is the lack of awareness of the general public about the concept of escape rooms. This lack of awareness significantly limits the customer base of MTE and ultimately impacts its B2C market profitability as educating the market requires expensive marketing efforts.
- MTE operates in a market where there are very few specialized suppliers. This creates a lot of dependency and lack of leverage when it comes to production deadlines or prices. Thus, ultimately impacting how fast MTE can scale up in its market.

3) Strategic Challenges:

- MTE faces a lot of uncertainty about the appropriate growth strategy to adopt moving forward. It is considering many options, mainly: internationalization, diversification, and market penetration.
- MTE is also considering introducing a franchising model. However, it is not sure on 1) what that model would look like exactly in terms of royalty, assuring the preservation of quality etc 2) What that model would be used for exactly: internationalization, or market penetration?
- MTE is also unsure about the best way to scale-up as it faces concerns about whether to adopt a plug and play model to benefit from economies of scale or continue on its innovation journey and produce new games for each new store.

4. Explore different internationalization options for MTE, advantages, and disadvantages of each option.

MTE is considering international expansion as a growth strategy due to the fact that the Portuguese market was deemed relatively small and will be potentially almost saturated in the mid-term. Spain was considered as the easiest market to expand to, due to geographical and cultural proximity. Below we explore the different internationalization options open to MTE and their respective advantages and disadvantages:

1. Wholly Owned Subsidies:

In the case, Tiago refers to this model as "The Starbucks way". In this internationalization option, MTE would open stores in Spain that are fully owned by the firm and would capitalize on its network of shopping mall partners to do so. It would use its locally successful market penetration model and utilize it to penetrate the Spanish market. This option has many advantages. First, it will allow MTE to test out the Spanish market and thus gain market knowledge. Second, it will allow MTE to have full control over its operation and thus be able to internationalize at its own pace, have full control of the quality of the stores operating and build its brand recognition internationally. Third, it would enable the brand to build even stronger strategic partnerships with its distribution network of shopping malls and might even benefit from having even more favourable conditions from them as they see the potential of the brand growing. Finally, it would allow MTE to capture all the profit from its international venture in case of success since it does not have to share it with third parties. However, this option also carries some disadvantages. First, wholly owned

subsidies are considered the riskiest option when it comes to internationalization since the firm bears all the costs and it requires a higher capital investment than all the other options. Moreover, this option carries the most operational complexity since MTE will need to find suppliers, work on legal compliance, and might even need to adopt its operational model. In the case Miguel mentions: "I do not think I can be the CEO for both Portugal and Spain". This means that MTE might need to adapt its management capacity to accommodate international expansion. Finally, this option might lead to a slower expansion pace compared to other options since it is resource extensive.

2. Franchising

In the case, Tiago refers to this model as "The McDonald way". In this option, MTE would expand to the Spanish market through franchising. The case mentions that in the case of the adoption of this model, MTE would still have at least 1 owned store in Spain to test out the market beforehand. This option carries some advantages. First, it comes with way lower risk than fully owned subsidies since MTE would invest way less to expand. The expansion will probably be faster since it is not fully dependent on MTE resources and franchisees would help MTE gain both local knowledge and second gain experience on how to manage a franchise. It is also expected to be operationally less complex since MTE won't have to hire as many people to expand. However, MTE will have to decide how game production will be delivered to Franchisees, meaning whether it will have Spanish production partners deliver the games to the franchisees, or keep its current partners and ship the games directly to Spain. Moreover, MTE will have less control on it brand and will have to manage its franchise well to not lose brand equity. In the case that this venture is successful, MTE would earn significantly less profit than in fully owned subsidiaries model. Finally, the biggest disadvantage that MTE faces for this model is the lack of experience and thus credibility. In order, for potential franchisees to be interested in a venture, the brand needs to build enough equity. While MTE might have done that in its local market, it is not the case internationally. MTE lacks both the international experience and the franchising experience and thus looks less credible to potential international franchisees.

3. Joint Venture

While this option has not been brought up in the case, it is one of the internationalization options that have been mentioned in the literature review and might be worth exploring in the analysis. In this model, MTE would find a Spanish

partner that would help it expand in the Spanish market. The advantages of this option are numerous. First, it would allow MTE to have local expertise readily available as this partner would help MTE gain access to local suppliers and distribution channels. Moreover, it will help MTE gain insights on Spanish customers, the B2C market preferences in term of games but also B2B contacts and networking to facilitate sales. Additionally, this partner would share the financial burden with MTE and thus the risks associated with the expansion. The biggest catch, when it comes to joint ventures, is finding a partner that aligns with MTE strategic vision. Joint venture usually fail due to strategic differences and since both partners share control of the venture, cooperation is crucial and major conflicts lead to loss of profit and failure.

4. Not Internationalize

Finally, MTE can decide not to internationalize. This option would allow MTE to focus its attention and resources on other areas such as developing more its operational model and improving its efficiency or building more brand equity and a franchising model locally which in turn will help it gain credibility to later internationalize. It can even focus on other growth options such as market penetration or diversification. The downside of this option would be loss of potential growth opportunity and stagnation. It is true that the Portuguese market is small despite its growth and there is still an untapped customer base (due to lack of awareness). The market would eventually saturate if MTE continued its market penetration strategy and would risk cannibalization. Companies are bound to grow and prosper or stagnate and die as the adage says:" you fail 100% of the opportunities you don't take".

5. Assess the benefits and risks associated with diversification as a growth strategy option for MTE.

MTE is considering diversifying as a growth strategy. In this option, MTE would like to introduce a different entertainment experience akin to an attraction park based on its most popular game concepts. According to previous market dynamics analysis, MTE operates in a highly competitive fragmented market and since the option of diversification that MTE is considering is categorized as related diversification, RD can offer some benefits for an SME like MTE in this competitive market context. First, it would potentially allow MTE to capitalize on resource and capabilities sharing across different business units and thus, cost cutting and benefitting from economies of scale. Second, RD is beneficial for SMEs to protect against product obsolescence and market risk. In the case, Tiago touches

upon the fact that one of the reasons that motivated his partners to consider diversification was the fact that they fear escape games would eventually no longer be a popular entertainment option like paintball for example. SMEs often operate in survival mode when they face financial vulnerability. Diversifying would thus, help SME be less vulnerable to market shocks. Consequently, it would help the firm diversify its revenue streams and be less dependent on the escape game room market. This is especially relevant if MTE deems that it has already nearly exhausted all of its growth potential in its current market. Moreover, RD would enable MTE to activate economies of scope which reduces the cost of production across different products. Thus, MTE would be able to access a new customer base and capitalize on market trends while hopefully, staying competitive. However, this growth option also comes with various risks. First, this option would require additional investments whether financial, on human resources or on management. MTE will need to develop knowledge and expertise in this new market and since this takes time, it might put a strain on its operational efficiency. Second, MTE can risk cannibalization of its core business if this new venture is successful. As Portugal is a small market and we have established that one of the problems is the lack of awareness of the escape game room concept and that the B2C segment has low switching costs due to the plethora of readily available entertainment options, there´s then a high possibility of cannibalization. Finally, there´s a risk associated with losing brand identity if MTE overly diversifies or strains away too much from its core business.

6. What alternatives are open to MTE?

MTE has various alternatives that it can adopt to pursue its growth trajectory. These alternatives can be categorized in three main categories: internal development focus, local market focus, and international market focus. Below we explore the alternatives under each category.

a) Internal Development Focus

- Focus on optimising MTE operational model.
- Invest in improving the public awareness of escape games.

b) Local Market Focus

- Continue the current Market penetration model in Portugal by opening more stores and working on product improvement.
- Create a franchising model for MTE in Portugal

- Diversification: in this scenario, MTE will focus its efforts on creating a new business unit akin to an attraction park in Portugal. This option has been explored in Question 5.

c) International Market Focus

The alternatives within this category have been already explored in depth in Question 4. Here we summarize them:

- Wholly owned subsidiaries in Spain utilizing MTE network of strategic alliances with shopping malls.
- Franchising: internationalize to Spain using franchisees.
- Joint Venture: find a Spanish partner and enter a venture in which MTE will have partial ownership.

MTE can adopt any of these alternatives for its growth strategy or it can also mix and match and adopt any combination of these alternatives.

7. What are your recommendations for the managers of MTE?

Below we list a number of recommendations on the next steps we believe MTE should adopt for its growth strategy based on the analysis done in all the previous questions:

1. **Continue market penetration differently:** we believe that MTE did not exhaust all of its growth potential for its core business within the Portuguese market and thus, should pursue market penetration. However, this market penetration doesn't have to be done through opening more stores in Portugal. MTE is planning to open three new store by the first semester of next year in Braga, Coimbra and Setubal. By that point, MTE would have already several stores all over Portugal and opening more wouldn't necessarily yield significantly higher profitability as it runs the risk of saturation and cannibalization. However, MTE should invest in market penetration through gaining more customers within its local market. MTE should invest on raising consumer awareness of it brand. This can be done through several ways. We list some of them below:

- Pop-up Events: MTE can utilize the full potential of its mobile escape room concepts (Escape the Boat and Escape the Van) by creating around the country pop up events, in which customers can discover MTE offerings. MTE can then reach more customers

at a lesser cost since it wouldn't need to open new stores and can utilize existing resources.

- Business partnerships for potentially highly profitable B2C market segments: MTE can target more aggressively profitable market segments through business partnerships. The majority of MTE B2C customers are young adults from 20 to 35. MTE can target those young adults through partnerships with specific players to offer discounts. For example: It can have a partnership with Erasmus associations and universities all over the country in which students will benefit from discounts on MTE offerings. It can also target tourists by partnering with travel agencies (rationale behind targeting this segment is explored in a later segment of the analysis). Moreover, MTE can offer discounts in other stores for acquired customers to foster repeat business.
- Deepen the development of the B2B market: The B2B segment is by far the most profitable segment for MTE. We believe MTE should invest in hiring salespeople that specifically work on the B2B segment. These new resources would be hired for two primary reason 1) develop MTE B2B portfolio to increase more sales 2) Consolidate the relationship with existing B2B customers to ensure repeated sales.
- Marketing efforts: MTE should further invest in its marketing efforts. Its second biggest segment is young people under 18 that are notoriously influenced by digital platform trends for their entertainment decisions. Thus, MTE should focus its digital marketing efforts in platforms such as TikTok to attract this segment.

2. **Invest in Operational efficiency:** we believe that MTE should consolidate its operational model by solving some of its operational inefficiencies' challenges:

- Off peak hours: MTE can solve its off peak hours lack of profitability in different ways. First, by adopting a more dynamic staffing model where employees are staffed according to needs. Moreover, it can enrich the job description of its current staff, having work during off peak hours on other things such as B2B sales or digital marketing. Second, it can focus on targeting tourists. The problem of off-peak hours is created due to the fact that most B2C customers are in school or work during these hours. Tourists are not bound by these constraints and thus, targeting them can alleviate some of the problem. For this second solution, MTE should focus on creating targeted offerings that might appeal to them specifically (like the escape game rooms based on Portuguese games that it used to have in the past or create new offerings such as outdoor escape games which allow tourists to discover the city while playing).

- Plug and Play model: MTE should focus its efforts on having a limited Portfolio of games that it can utilize in various stores instead of constantly innovating. This would allow MTE to cut production costs and delays and to benefit from economies of scale. It would also enable MTE to have a readily available portfolio of games for its potential future franchisees that they can chose from.

3. **Develop a Franchising model:** MTE should focus on developing a franchising model. It can leverage the background of its founders in consultancy and do market research to figure out the best franchising model suitable for MTE. Once, this model is ready, it should test it out in the Portuguese market first to gain experience and credibility for its future international ventures. While pursuing this franchising model, MTE should have a plug and play readily available for its franchisees as mentioned above.
4. **Go to Spain:** MTE should capitalize on its strategic network of distribution partners of shopping malls and internationalize to Spain. However, it should do so gradually. First, it can test out the market with some pop-up events utilizing its Escape the Van concept. This would help MTE discover the market and its customers at a relatively low cost, Second, once the first test is successful, it should activate its network and open a new store in a major Spanish city (Barcelona, Madrid) in a shopping mall that is owned by one of its partners. Finally, once the franchising model is ready and have been tested out successfully in Portugal, it can continue its expansion in the Spanish market using a franchising model. Moreover, MTE can hire a regional manager for its international stores which would alleviate Miguel concerns about the capacity to manage internationally. This regional manager should be provided with incentives linked to performance to motivate them.
5. **Second round of Investments:** To finance some of the ventures explored above, we believe that MTE should consider a second round of investments with Portugal Ventures or other investors. The main purpose of this investment would be to actualize the above-mentioned strategic growth strategy.

4. Conclusion

MTE case study is a classic “Where do we go from here?” case applied to a Portuguese SME operating in the niche market of escape rooms. While the company is currently in a good position, any future strategic decision about its growth can make or break its successful upward trajectory. The case would hopefully, help the students explore various strategic concepts such as market penetration, diversification, and internationalization in a concrete example.

The approach to the case storytelling was similar to the creation of an escape game room concept in which there is a problem and clues are scattered within the case to help students find the solution. However, operating in a real-life complex and dynamic business environment entails that there´s no singular challenge and no simple solutions. The main challenge I faced when developing the case was to chose which strategic issues to tackle and solutions to analyse that would be relevant to an academic context. Simplifying the complexity of MTE reality into one story to tell proved to be challenging.

I believe if given the time that further investigation about different franchising models in the literature review and the analysis would’ve enriched the case. Moreover, access to MTE financial data would’ve helped students in the analysis of the case.

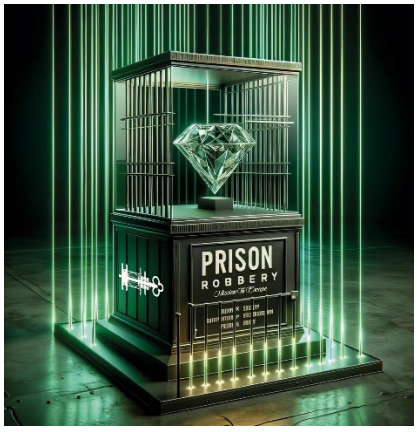
Some noteworthy aspects to follow on would be how MTE would balance innovation and operational efficiency and how would prioritizing one or the other would impact its profitability. It would be also interesting to see which growth strategy MTE decides to adopt in the future, whether any of the solutions presented in the analysis would be implemented and if they will be proven successful.

Appendices

Case Exhibits

Exhibit 1. MTE Store

Exhibit 2. MTE escape game rooms



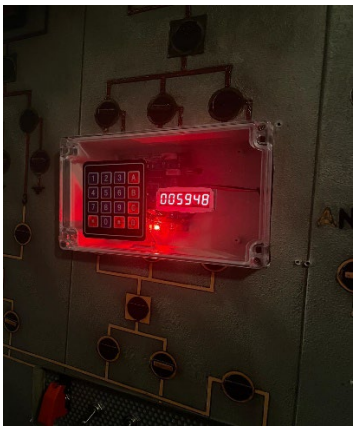


Exhibit 3. A.X.N S.W.A.T. Escape the Van

Exhibit 4. MTE corporate team building escape in a minute event.

Video Link: https://www.youtube.com/shorts/pB9MdPtgQRQ

Exhibit 5. Photos from Sony product launch by MTE

Exhibit 6. MTE B2C prices

6.1Escape the Van prices

1 Hour	2nd and 3rd Hour	Half a Day	Full Day
200 euros	150 euros per extra hour	400 euros	750 ros

6.2 Escape in a Minute prices

Less than 50 people	Between 50-100 people	More than 100 people
200 euros +VAT	17.5 euros + VAT p/pax	15 uros + VAT p/pax

6.3 Customized Mystery Box prices

Less than 50 people	Between 50-100 people	More than 100 people
40 euros + VAT p/pax	35 euros + VAT p/pax	30 euros + VAT p/pax

Exhibit 7. Summary of main competitors' prices

7.1 Lisbon Competitors

	2 people	3 people	4 people	5 people	6 people	7 people
Game over	65 euros	76.5 euros	84 euros	95 euros	108 euros	N/A
Escape Hunt	55 euros	65 euros	75 euros	85 euros	N/A	N/A
Lx Escape	50 euros	60 euros	70 euros	80 euros	90 euros	N/A
Puzzle Room	55 euros	60 euros	70 euros	80 euros	90 euros	100 euros

7.2 Porto Competitors

	2 people	3 people	4 people	5 people	6 people	7 people
Exit Games	55 euros	59 euros	69 euros	79 euros	89 euros	_
Cubus	50 euros	60 euros	68 euros	75 euros	90 euros	98 euros
Ás de Copos	60 euros	66 euros	68 euros	89 euros	96 euros	112 and 128 for 8 people
Occultus	55 euros	66 euros	68 euros	80 euros	96 euros	112 euros

Exhibit 8. MTE participation in external events

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