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ACTUALSALES PORTUGAL

THE INTERNATIONALIZATION PROCESS AND FOREIGN MARKET
SELECTION.

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Abstract

The online performance marketing industry (OPM) has been consistently growing double digits for the past 5 years, reflecting the market's adjustments to a reality where economic challenges predominate and consequently push companies to demand greater evidence of return on investment. Online lead generation, a sub-segment of OPM, is defined as the process of generation and delivery of leads, i.e. prospects interested on a certain product or service. ActualSales is a multinational Portuguese company that operates in the online lead generation industry, currently facing the industry's paradigm of rapid growth and increasing competition. Henrique Agostinho, managing partner, was responsible in defining the next steps for the company's internationalization strategy and adaptation to the recent and fast-growing industry, by creating a new subsidiary whether in Argentina or Colombia. Recent contract opportunities in both Latin American countries made the two eligible for consideration; however, the company did not possess enough human resources to tackle both geographies. Consequently, only one country could be chosen.

In this case, students are presented with real life events related to industry and strategy definition, more specifically the internationalization process and foreign market selection of ActualSales.

Key Words: internationalization; strategy; online performance; lead generation; marketing; market selection; country and distance analysis

Resumo

A indústria de online performance marketing (OPM) tem vindo a crescer consistentemente dois dígitos ao longo dos últimos cinco anos, refletindo o ajustamento do mercado a uma realidade onde os desafios económicos predominam e força a que as empresas exijam cada vez mais evidências do retorno do investimento. O online lead generation é um subsegmento da indústria OPM, e define-se como sendo o processo de criação e entrega de leads.

A ActualSales é uma empresa multinacional Portuguesa que opera na indústria de lead generation e que atualmente compete numa indústria em rápido crescimento e com cada vez mais competidores.

Henrique Agostinho, managing partner, é o responsável pela definição da estratégia de internacionalização da empresa para a América Latina, acompanhando assim o rápido crescimento da indústria nestes países. Novas oportunidades contratuais nos países da Argentina e Colômbia, tornaram possível a implementação de uma nova subsidiária. No entanto, a falta de recursos humanos suscetíveis à expatriação, força a que apenas um dos países seja eleito.

Este case study expõe eventos reais, permitindo ao leitor uma representação daquilo que são os desafios relacionados com a definição de uma estratégia de internacionalização, assim como o processo de seleção de mercados internacionais.

Palavras-Chave: internacionalização, online performance, geração de leads, seleção de mercados, análise de indústria e de mercado.

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Introduction

The main goal of this dissertation is to provide students with knowledge on the field of internationalization of firms, more specifically related with the process of market selection. The structure of this paper starts with the case study and the dilemma, then literature review and teaching note. Furthermore, in this paper are depicted six questions in which the first four are to establish a knowledge base of the online lead generation industry and the firm, allowing for the resolution of the dilemma portrayed.

This dissertation addresses an important managerial issue conveyed by the perception of living in a borderless world due to technological advancements and the Internet. Yet, cultural differences and physical distance still influence business across borders and are critical for its success or failure. The level of knowledge of external and internal elements is determinant for the lessening of the effects of distance, thus leading to firms' success. By illustrating real events and first-hand managerial findings, this dissertation allow students to grasp topics such as industry analysis, strategy definition and market selection.

ACTUALSALES PORTUGAL

A CASE STUDY ON PLACE SELECTION AND INTERNATIONALIZATION STRATEGY

Five o'clock, 12 March 2016, São Paulo, Brazil.

Henrique Agostinho, managing partner and responsible for the Latin-American subsidiaries looked through the window of his office, wondering about the course of the company over the past years.

Since he joined the company in 2008 to take the lead of the internationalization process to Brazil, he had the chance to see ActualSales establish a reputation as the leading firm in the lead-generation industry in Portugal and saw the AS Group attaining revenues over 15 million euros year.

Despite the company's success and stability, Agostinho recognized the challenges of maintaining the firm's market leadership and positive performance in Portugal, while leveraging progress in foreign market. However, to grow it was essential to attract new customers and to enter new geographies.

In a previous business meeting with the CEO, André Macedo, both had set the objective of reaching at least 65% of revenue in foreign sales until 2018. With this in mind, and considering the enormous success of ActualSales internationalization process to Latin American countries, Agostinho was going to recommend to the CEO the incubation of a new subsidiary.

Recently, the growing volume of new contract opportunities in Colombia and Argentina made possible to consider the implementation of a new subsidiary in these two geographies. However, ActualSales had only enough human resources to tackle one of the suggested geographies, otherwise risking the success and survival of the new subsidiary.

In a few minutes, the managing partner would make a conference call to Lisbon, where the CEO was longing to discuss whether the presented suggestion of going to Colombia or Argentina was attainable and sustainable.

ActualSales Group S.A.

André Macedo founded the ActualSales Group S.G.P.S., S.A. in 2006, in response to the consequent emergent growth of customer base and resulting pressure on the delivery of a broader variety of services, aligned with the urge to answer to a growing market necessity that was increasingly relying on online communication.

Nowadays, the company specialized in digital marketing, advertising and online sales, and accounts with six subsidiaries (Exhibit 1) being ActualSales one of them.

Each subsidiary or business unit (*bu*) is entirely autonomous, positioning itself in the market with its own branding, resources and management, with the objective of maximizing profitability. Thus, it is a functional structure characterized by reduced hierarchy, promoting values of autonomy, accountability and transparency.¹ The only factor in common, besides belonging to the same group, is a shared culture in which each *bu* benefits of synergies such as experience and expertise.

Results generated via each subsidiary are managed by the holding, which detains the power to decide in which projects to invest. The advantage of this model is that if a specific subsidiary is not being able to be competitive and generate results, the collateral effect on another subsidiary is entirely negligible. Thus, the group does not invest in sunk costs and in its place feeds the strongest and growing subsidiaries.

"What these (subsidiaries) have in common is a shared culture, a rebel way to act followed by an anti-establishment approach. It is an independent, secret and "terrorist" organization." Henrique Agostinho, Managing Partner Latin America.

ActualSalesOverview

Demand generation or lead-generation industry, a sub-segment of the online performance marketing (OPM), is where ActualSales operates. The firm positions itself within the client's value chain as an intermediary or subcontractor, delivering high quality leads and making a real impact in the client's commercial and sales process.

The firm provides services and advisory in the areas of information technology, computer science, marketing, advertising and design, as well as the creation and management of Internet sites and other complementary services such as creative strategy, copyright, media buying, landing page design, customized support and follow-up on the leads. It is a technology-driven and quality-focused company aiming to deliver innovative and customized solutions to the lead-generation industry.

ActualSales, being a pioneer in the lead-generation industry in Portugal since the beginning, invested on the development of online channels and in-house technology to improve the process of capture and delivery of quality leads to its clients. Being technological support crucial for the execution of the firm's services, several online channels were developed in-house such as ActualTrade, Páginas Mobile, Mini CRM, PortalAS and Cadastro-Certo (Exhibit 2).

In addition, the company accounts with a highly specialized workforce of 80 people from analysts, graphic designers and web developers, distributed over ActualSales' subsidiaries across the globe (Exhibit 3).

Lead-Generation: How It Works

The process of capture and delivery of hot-leads comprises on three factors: (1) purchase of optimized online media (Facebook, Google, Bing, etc), (2) construction of customized landing pages and (3) qualification of leads.

In other words, the process encompasses as following: ActualSales' graphic designers and analysts develop elaborated forms of "bait" (online targeted advertisements) to attract potential buyers. At the same time, analysts make sure "bait" is visible as much as possible, by maximizing the combination of keywords or clicks purchased at the lowest cost, while generating the highest volume and visibility.

A potential consumer who might find the displayed content interesting, takes concrete online actions (clicks), showing his/her interest in the product or service advertised. By doing so, the consumer is giving permission to anyone with access to the click data to realize his/her interests.

After clicking the online ad, the potential consumer is redirected to a website or landing page to fill out a form. This form, with real data on the prospect, is the tangible expression of the prospect's interest, which makes him or her a lead. Lastly, AS delivers these recently found leads to its clients' call center to engage in the selling process. This whole process happens within seconds (Exhibit 4).

In addition, through multivariable testing, a technique to test various changes simultaneously and identify the impact of each individual change in every campaign executed, AS is able to provide the highest impact at the lowest expenditure. Examples of these are A/B testing, heat maps and source testing. Such changes could be as simple as font size, images, or logos applied in landing pages, to determine the most effective combination to attract potential buyers.

The whole process of capture and delivery of the leads is customized according to each client's campaign. Henceforth, each factor is constantly adjusted to client's business, products, services and target market, to ensure the maximization of the value delivered and success rate.

Furthermore, ActualSales while securing the setup cost and investment in the search and delivery of the leads guarantees the conversion from prospect to buyer of at least one of each seven hot-leads delivered, a rate that is redefined and re-adjusted according to client specifications.

In essence, ActualSales is a firm specialized in "finding" prospects or leads in exchange of a monetary compensation per each converted lead, called "success fee", previously established and negotiated with its clients.

Consistently assumed as the leading firm in the Portuguese market within its industry, AS accounts with two main characteristics that allow the company to compete in quality and bespoke. A highly specialized and qualified workforce and in-house technology development are the main foundation of the company's competitive advantage.

The online channels developed in-house, allow for the standardization of the process described above, and directly influences the quality perceived by buyers throughout the channels in which content is displayed.

A rigorous recruitment policy is the basis for the highly skilled and specialized workforce, continuously reinforced by in-house training and investment (time, capital, expertise), to nurture values of autonomy, responsibility, leadership and dedication since beginning.

The company's vision is to continuously improve the process of lead-generation and create market opportunities that have not yet been detected, complemented with the latest technology. Therefore, the company's mission is to be the reference in the lead-generation industry by continuously delivering real value to its clients.

ActualSales Customers

The traditional means of advertisement such as TV, radio, print and outdoors, are assumed as less targeted, more expensive and more difficult to measure. For these reasons, firms are willing to try new approaches that are unquestionably more cost-effective.

ActualSales Portugal has been the market leader in the lead-generation business, not only because it provides high-quality leads, but also because of its revenue system. This system, in which companies only pay back for the tangible converted leads, represents almost zero risk for companies. For this reason, payment based on success method has become a strengthening trend worldwide.

"Here the important part from the client's perspective, is that their capacity to invest in processes that generate new sales is almost unlimited." - André Macedo, CEO ActualSales Group.

Today, ActualSales accounts with a portfolio of both national and multinational clients from banking, insurance and telecommunications (Exhibit 5).

The process in which AS captures clients comprises the following:

Client prospection: sales representatives attempt to discuss business requirements with prospective clients and expose how the firm will contribute to the improvement of sales performance.

Pilot: B2B buyers are very rational in the buying decision process and are usually focused on the business value delivered.² Based on a 3-month pilot experience, both firms negotiate and settle the number of leads delivered by AS as well as the proportion of leads converted. This phase is critical to demonstrate the capacity and competency AS holds in capturing and delivering high quality leads, which usually comprises a 50% success rate.

Even though B2B buyers are typically sophisticated and understand the value proposition delivered by companies they could collaborate with, online lead generation is a quite recent industry. Not only potential buyers can be quite skeptic, as they are not aware of other players in this niche market, nor their value proposition.

Business time: If AS proves to be successful (again the 50/50 success rate), the next step is to agree on a contract; if not, then the potential client will not sign for the services. Usually each contract with AS endures for years.

Follow-up: customer service is key. B2B buyers are relationship driven and for that reason, constant follow-up and customer service is critical for the maintenance of the relationship.

ActualSales holds this premise true: an online channel specifically assigned to customers to manage leads (for free) was developed to facilitate the conversion of leads to sales through scheduling /remarketing/evaluation. In addition, in order to tackle each of the clients' needs, AS follows an internationalization strategy that consist on the creation of subsidiaries abroad (greenfield investment), that better exploit this relationship and clients' need for constant follow-up and feedback. Even though the company has capacity to work new geographies from the headquarters in Lisbon, it chooses to be close to its clients.

Industry Overview

*“Economically challenging times have seen marketing budgets squeezed and greater evidence required of return on investment. As a result, we expect that the attractiveness of paying for advertising based on an extremely measurable and specific consumer action will see more advertisers using Online Performance Marketing as a key channel for driving sales.”*Anna Bartz, Senior Manager at PwC

The changing nature of demand generation has been disruptive for firms. Innovations such as the Internet enabled drastic changes in the way to engage with customers and prospects. An evidence of this changing nature is an on-going trend of marketers moving to online marketing practices (Inbound Marketing) for its cost-effective reputation and quickness in generating highly measurable results, hence companies marketing budgets are increasingly being allocated in Website Optimization, Social Media and SEO (Search Engine Optimization), the top three most invested channels in lead-generation (Exhibit 6).

Online Performance Marketing (OPM) is an integrated part of online marketing and consists on a marketing technique in which advertisers only pay for results; it integrates two sub-segments such as lead generation and affiliate marketing.

In the last five years, the industry average growth was 12%, pinpointing the potential for future growth might be, yet OPM is still a minor portion of the online economy.³

In 2012, UK companies spent over £800 million on OPM generating around £9 billion in sales, and between 2008-2012 advertising expenses on OPM grew by 57% due to lead generation spend increasing by 136%.⁴

The increasing success of OPM industry is the result of firm's awareness in pursuing cost-effective strategies and easiness to enter the industry. Furthermore, access to distribution channels is high, capital requirements are low, the need for benefiting of scale economies is not entry deterrent and expected retaliation from incumbent firms is not expected.

Generally, the average cost per lead ranges from \$20 to \$50 dollars, which represents quite small investment from companies. Still, this value is generally negotiated between parties.⁵

The overall online advertising market is highly concentrated, with the top 10 ad-selling companies comprising over 70% of total revenues in the industry.⁶ Search advertising continues to lead the industry (37%), followed by mobile (28%) and banners (16%). Online lead generation ranks six from among eight categories of ad formats, accounting with 3% or \$483 million in 2014.⁷

The key buying industries of display advertising are consumer goods (FMCG) and finance sector, with both representing 16% of spending in display advertising, followed by Entertainment & media (13%), retail (11%) and travel & transport (10%).⁸

Industry Suppliers and Distribution Channels

Google

It is through the purchase of key words and through ad words that ActualSales is able to place the landing pages, banners or websites in the World Wide Web. By purchasing key words, AS is making sure that potential buyers see the content or information displayed by the firm when searching for information in a search engine. AdWords, an advertising program offered by Google to promote products and services, is another channel in which AS display their advertisement.

Ad search is the largest segment in the internet-advertising industry and is predicted to reach over 35% of total Internet advertising revenue in 2019, making this segment relevant and determinant for ActualSales ads placement.⁹

Google is the biggest search engine provider accounting with over 88% worldwide desktop market share, followed by Bing developed by Microsoft with only 4.85% in the same category.¹⁰ Even though numerous competitors do not characterize the search engine industry, it is highly concentrated, with Google dictating the market.

Email Marketing List Affiliate

Email marketing is a tactic for online lead generation and is considered the most successful one.¹¹ Through drip marketing, AS is able to send strategic communications or pre-written messages to a set of individuals overtime.

These suppliers own large databases of opt-in-mail lists (specific e-mails which people give permission to receive correspondence), that do not fall under the category of spam. Even though these types of suppliers are abundant in the market, online lead generation

companies are the main buyers, and the ability to work on the relation with them is critical for success.

“It is in the strength of the history we have with Email Marketing List Affiliatesuppliers, that we are able to achieve something meaningful.”

Henrique Agostinho, Managing Partner Latin America.

Facebook

While Google leads the search ads industry, Facebook has appeared as the utmost predominant company in the display ads vertical. Display advertising is a growing tendency and by 2017, Facebook and Twitter will account with over 33% of digital display market in the US, with Facebook continuing to creep upward.¹²

Consumer Behavior

The relevance and usage of each channel is highly variable according to client's needs, product, service and campaign.

Even though consumers more frequently consult the internet for searching information before finalizing a purchase, the consumer behavior process in each channel is different due to consumer' predisposition and motivation to engage in information search (Exhibit 7).

An individual coming through a search engine quest would be more willing to spend extra time searching for information than someone who just stumbles on a banner ad on Facebook, since it is considered as leisure time. For this reason, search engine is the preferred online search choice.¹³

Given all the above-mentioned characteristics, ActualSales adapts the advertising campaign, with respect to content and design, to each distribution channel in order to capture as many leads as possible.

Competitive Landscape

ActualSales is the Portuguese market leader. For the company, other players in the Portuguese market such as Sales Engine Online, Performance Sales, Adclick and Future Prime do not present a real threat.

At some extent, the aforementioned competitors are copycats of AS business strategy: in-house technology development, common revenue system that is performance based, and the assurance of the whole setup cost and investments in the process of search and delivery of the leads, including the creative process (Exhibit 8).

The reason why AS does not consider these competitors an actual threat is because players often “come and go”, i.e. players struggle to build sustainable competitive advantages and to keep up with the lead-generation very dynamic industry. AS is not only able to develop and build competitive advantages, as it capitalizes on the learning and experience curve to reinforce its presence in the industry and consistently endure and maintain its market leadership status.

In this industry is also important to take into account the existence of indirect competitors such as advertising and marketing agencies that provide services such as content marketing, online display advertisement and so on. These are highly dispersed, yet powerful as they exert a big influence in many companies' marketing budget. These agencies are able to establish a long relationship with its clients and benefit from reputation. The power these exert is enough to discourage companies to purchase lead-generation services, if it conveys to them.

“In lead generation we work on the motivation of those who, through a stimulus, desire to obtain a more detailed proposal on a product or service. This prior knowledge of market trends and consumer buying process is something crucial to develop this activity” Henrique Agostinho, Managing Partner Latin America.

Substitute Products

The lead-generation industry evolved differently across countries. In countries like the US and Canada the industry is very sophisticated.

In countries in which sophistication exists, the business process is different, i.e. lead generation providers instead of searching the leads and deliver them to a certain company, which they have established a contract with, they search and deliver leads for an aggregate sector (insurance, finance, FMCG) and then sell the leads to the highest bidder.

This process is only possible when buying companies know exactly the value each lead has to them, how many they are able to afford and exactly how many they are able to convert in real sales. These are denominated “Verticals”.

Going Abroad

In the case of the Actual Sales Group (ASG), each business unit (*bu*) or subsidiary, being independent within the group, complies with its own internationalization strategy process. One that is the most suitable strategy, given the *bu* capabilities and competencies, and on whether these are or not transferrable.

ActualSales started its internationalization process in 2007 to Spain, Madrid, with the creation of a new and independent subsidiary (Greenfield investment). This move resulted from a mix of internal and external drivers: increasing sales opportunities found within client portfolio commercial relations, and external market needs that were intrinsically similar with the ones in the home country (Portugal). In fact, the beginning of the internationalization process was a consequence of the incremental nature of commitment to clients' demand due to their own request for having online lead generation services in other branches.

In 2008, AS entered the Brazilian market. However, this cross-continental internationalization process did not go as predicted. Even though Portugal and Brazil share a common language, colony-colonizer relations and culture similarities, the market specifics are very different from the Portuguese market.

In addition to the lack of foreign market and consumer knowledge, caused by deficient cross-cultural and country investigation, the company lacked two other resources: competent individuals to perform the tasks required and the technological suitability. It was necessary to adapt and adjust the platforms to the foreign country's reality to deliver the necessary responsiveness and quality, even though the platforms were performing under its capacity in the headquarters. Adding to this, the firm had to search and build from scratch a new suppliers base of email marketing list affiliates. The absence of these suppliers and the fact there was no trustworthy relationship to leverage from, was likewise one of the company's struggle.

The following year, André Macedo (CEO) invited Henrique Agostinho to take over the internationalization process to Brazil from the start. He was able to surpass the difficulties mentioned above and was extremely successful in deploying the necessary strategies to make Brazil a successful case.

As a result, in 2014 Brazil and latter Mexico sold over 3.4 million euros, with Brazil accounting for 2.4 million euros in sales and Mexico almost reaching 1 million euros in sales (Exhibit 9).

The internationalization strategy AS followed is consistent with a non-sequential internationalization model, i.e. the firm entered countries that are not physically closer to the country of origin, such as Brazil and lastly Mexico. The definition of physically closer implies not only geographic proximity but also culture, education and business practices.

As the internationalization process continues, ActualSales had established itself as a born-global (BG) firm, as it reached over 45% of foreign sales within its three years of operations and entered three new geographies such as Spain, Brazil and Mexico with the creation of new subsidiaries.

The challenge for a firm when internationalizing, is to choose the country in which it is able to explore internal and external advantages and make good use of its capabilities and competencies. Even though the relatively low investment of creating a new subsidiary was in average around 100,000 Euros, Agostinho knew that in order to start a new subsidiary in Latin America a few issues had to be covered. It was paramount to have at his disposition enough competent human resources to send for expatriation, the

technology developed in-house needed to be adapted to the new country reality, and lastly, a proper country analysis and investigation had to be conducted.

In addition, the set of human resources was very specific in its capabilities. It had to be someone with real entrepreneurial and leadership skills, someone who excels in communication skills and possesses outstanding analytical skills.

“At the beginning, when we started, we had a surplus of talented, very autonomous and independent personalities. It has been proving very difficult to replicate this nature of people. Not so much the technical part, but the commitment to the cause. This we cannot order over the night.”

Henrique Agostinho, Managing Partner Latin America.

With this in mind, it was paramount to gather relevant information on both countries to display valid managerial orientations that would underpin the discussion with the CEO on how physical distance could affect AS’ business.

Argentina & Colombia Analysis

Henrique Agostinho prepared a thorough analysis of the two countries in order to determine which country is the most attractive for internationalization. Given this, he looked into the culture of the two countries as well as geography, demographics, economic, administrative and political stability, and governance & development indicators.¹⁴

The dimensions for global competitiveness (Exhibit 10) provide a wide-ranging depiction of the competitiveness scene in countries around the world, at all stages of progress. The scale of measure goes from seven, representing a country that is the most competitive, and zero the least competitive.

Another important measure is the human development index in which three basic dimensions are assessed such as access to knowledge, long and healthy life and lastly decent standards of living.

A country’s voice and accountability relates to the extent in which citizens are able to participate in selecting their government, including freedom of speech, association and

free media. A country's evaluation goes from -2.5 to 2.5, with high values corresponding to superior governance results.

The degree to which investors are secure through disclosure of proprietorship and financial information goes from zero, less disclosure, to 10, more disclosure. Furthermore, ease of doing business in the country evaluation goes from 1 representing the most business-friendly and 189 the worst.

Lastly, from a company's perspective, to find attractive to internationalize to Argentina, extra information on the procedures to start a new business, whether it participates in common international organizations, time and cost of starting a new venture in the country are included.

Argentina¹⁵

Located in the southern south of America, Argentina, capital Buenos Aires, conquered independence from Spain in 1816. In 1900, roughly 6.5 million European immigrants entered Argentina, representing 30% of the total inhabitants. A consequence of this immigrant wave was the sudden emergence of numerous middle classes that influenced people to relate to each other as equals, as most of them were part of the same social class. As a consequence, individuals are less prone to accept unequal distribution of power, making Argentina far from the much higher values typical of other Latin-American countries and makes it also the less collectivistic oriented, though slight traits of collectivism still emerge such as obligations towards family and opinion of others.¹⁷

With a total of over 2.7 million square kilometers, is the second largest country in South America (after Brazil). The country borders are with Bolivia, Brazil, Chile, Paraguay and Uruguay (Exhibit 11).

Argentina is a republic and the legal system is a mixture of US and West European, which characterizes a strong necessity for rules and complex legal systems in order to structure life.

In Argentina, society status and appearance are considered very important. The dark attire, expensive accessories and a sober talleur are elements that infer power and social status. Given this, Argentinians are extremely achievement oriented, have strong ego needs and the urge to stand out and excel. Nevertheless, peer opinions and family

obligations are considered significant, which reveals the need of being socially accepted.

Additionally, there is a strong propensity to achieve quick results. The employer-employee relationship is somewhat calculative and there is a harsh partition between private and work life. Traditions and hierarchy are very respected.

Officially exited default in April 2016. The recent return to credit markets proved to be good news. However, the aggressive reform imposed by Macri (the president) triggered massive discontent in the country with thousands of people protesting against austerity and layoffs.

The GDP per capita in 2015 was 10,301 USD, a number that has been consecutively dropping since 2011 (13,768 USD). The GDP structure by sector (values of 2004) was first services (53.7%), followed by industry (35.8%) and lastly agriculture (10.5%).

Argentina's average monthly wages for highly skilled people ranges from 874 to 1,130 USD, while for low skilled people is between 255 and 452 USD.

Colombia ¹⁶

Located in the northern South America, Colombia has 1.1 million square kilometres, bordering the Caribbean Sea, the North Pacific Ocean and it is located in between Panama, Venezuela and Ecuador (Exhibit 12). In 1919, the country conquered independence from Spain, and is the fourth biggest country among South American countries.

In Colombia, inequalities amongst individuals are contemplated a fact of life and it is broadly recognized within all layers of society, thus this phenomenon is observed in the government and in business context, where leaders have a lot of power.¹⁸

Therefore, such power discrepancies push the society to be organized in social classes and distinctive stereotypes. Belonging to the group, loyalty and being in line with the group opinion is paramount and is a vehicle in which people obtain privileges and benefits. In essence, relations are more relevant than the job at hand.

Nevertheless, Colombians are success driven, status oriented and competitive. However, competition is only towards other group members and never with those in the same group. In addition, Colombians are traditionalists and conservatives, hence family and religion is highly respected.

Colombia is a republic and the legal system is based on Spanish law. However, a new criminal model is being gradually introduced after US procedures in 2004. There are extensive rules for everything; nonetheless rules are not blindly followed as individuals search for quick achievements and results.

Colombia had the longest-running civil war and the effects of it still mark society. It is also the world's leading coca cultivator and many drug related criminal activities are conducted illicitly. The president Santos made priority to addressing these issues and the deteriorated economic situation of the country, since consumer confidence is appalling due to rising food prices and other consumer goods, and the labour market is presentation signs of weakness.

The GDP per capita in 2015 was 6,044 USD and had been decreasing since 2013 (8,060).⁵ The GDP composition by sectors in 2005 was firstly services (53.3%), followed by industry (34.3%) and agriculture (12.5%).

Furthermore, Colombia's average monthly wages for highly skilled people ranges from 825 to 843 USD, while for low skilled people is between 230 and 298 USD.

Extra information on both countries is depicted in Appendix 1.

What Comes Next?








By capitalizing on the well-established position ActualSales gained through the years in the Latin-American markets, by leveraging on the growth of online performance marketing around the globe and reinforcing the firm's position in foreign markets, Agostinho decided to create a presentation to discuss with the CEO the constraints and options of creating a new business unit in Colombia or Argentina.

As Agostinho turned back to his chair and prepared the documents for the presentation, he was sure on how to approach the CEO and felt ready to make his suggestion.

Then, once discussed and approved, he could move to the next dilemma.

Exhibits

Exhibit 1: ActualSales Group subsidiaries

 <p>ActualSales</p>	 <p>FRK</p>	 <p>HIFCIENCY</p>
<p>Online Performance Agency +200 customers worldwide 100,000 monthly leads Offices in Brazil, Mexico, Spain and Portugal</p>	<p>White Label Performance Agency Worldwide Reach Development of monetisation on IOS and Android Platforms</p>	<p>Affiliation Network Management +300 affiliates +20 partner networks Data base of 2M personal e-mails.</p>
 <p>Direct2Sales Making Sales Happen representing </p>	 <p>RESEARCH & DESIGN</p>	 <p>content IGNITION</p>
<p>Digital Solution Provider Web and mobile development, mobile responsive, e-commerce and database management</p>	<p>Digital Design Agency International Developer: iOS and Android apps Developer of apps for social media +80 websites developed (PT and Brazil)</p>	<p>Database broker for Digital Marketing +800 thousand emails, proprietary database Sale of databases to call centers and direct marketing companies.</p>

Source: AS website

Exhibit 2: Technology developed in-house

<p>ActualTrade*</p>	<p>Tracking platform empowered to simultaneously deal with multiple sources of traffic, different technologies, payment and delivery aimed to ensure total control over results. This platform manages 5,000 daily leads, below its capacity.</p>
<p>Mobile Pages</p>	<p>Proprietary pages/hot-sites specially adapted to maximize traffic usage through light executions, local accommodation and Multiplatform mobile versions</p>
<p>Mini CRM*</p>	<p>Web application assigned to customers for the management of leads, to facilitate the conversion of leads to sales through scheduling / remarketing / evaluation</p>

PortalAS	Platform for generation of semi-automatic campaigns, aimed to increase creative teams productivity
Cadastro-Certo	Application for personal information management that allows to increase data efficiency

Source: Interview Henrique Agostinho

***Actual Trade**



***Mini CRM**

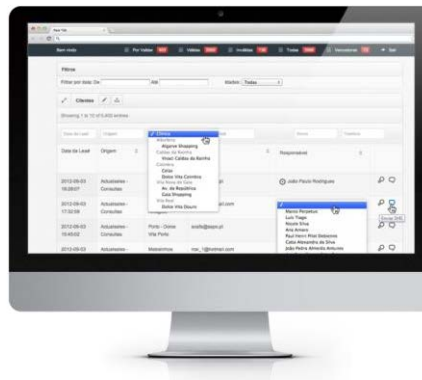
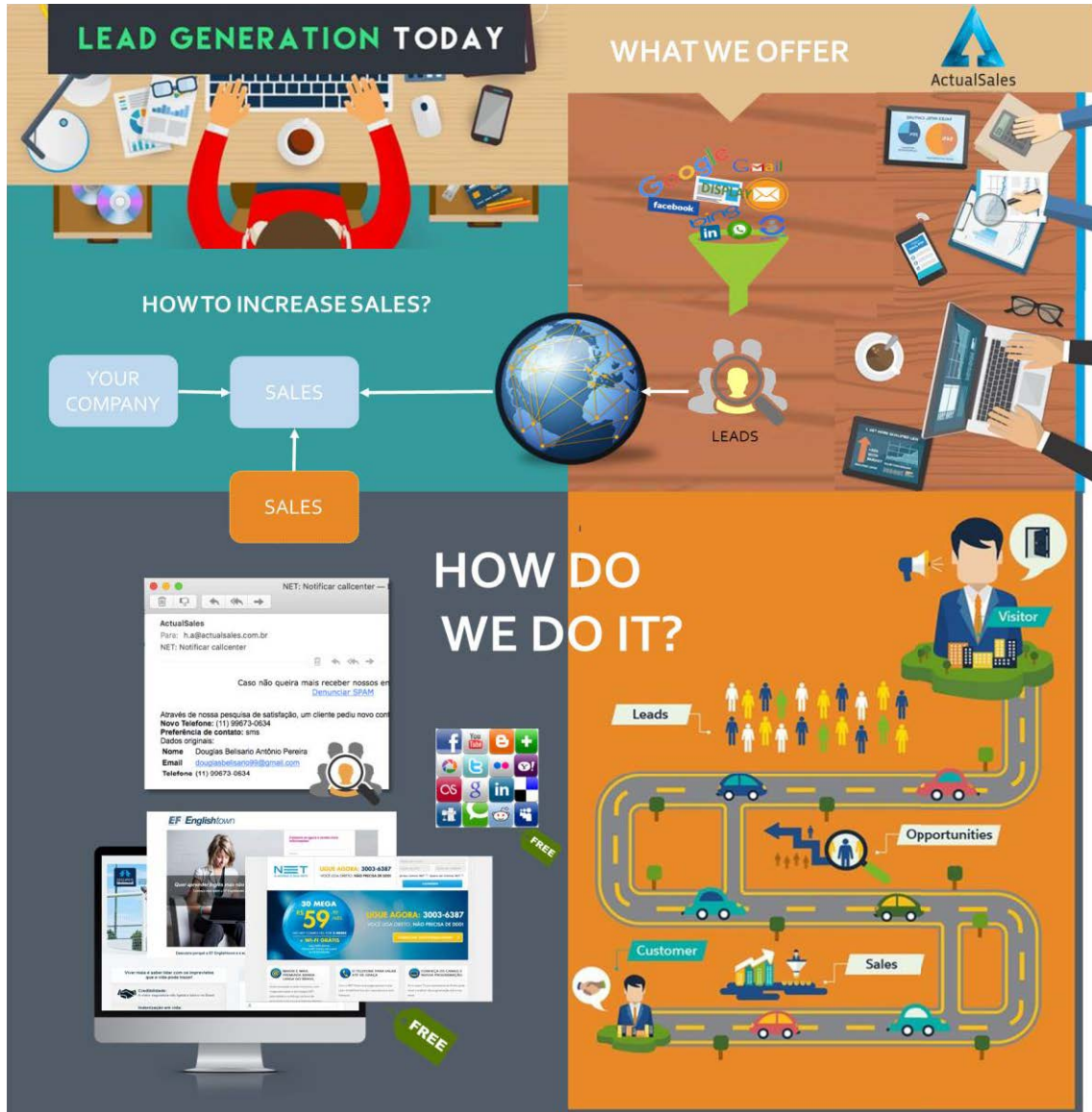


Exhibit 3: Employee distribution worldwide

Employees	Portugal	Brazil	Mexico
Administration	6	4	2
Graphic Designers	3	2	1
Analysts	16	11	5
Developers	15	8	4
Total	43	25	12

Source: Interview Henrique Agostinho

Exhibit 4: Lead Generation Process



Source: Author, based on interviews

Exhibit 5: Client portfolio



Source: AS

Exhibit 6: Top five invested marketing channels ⁵

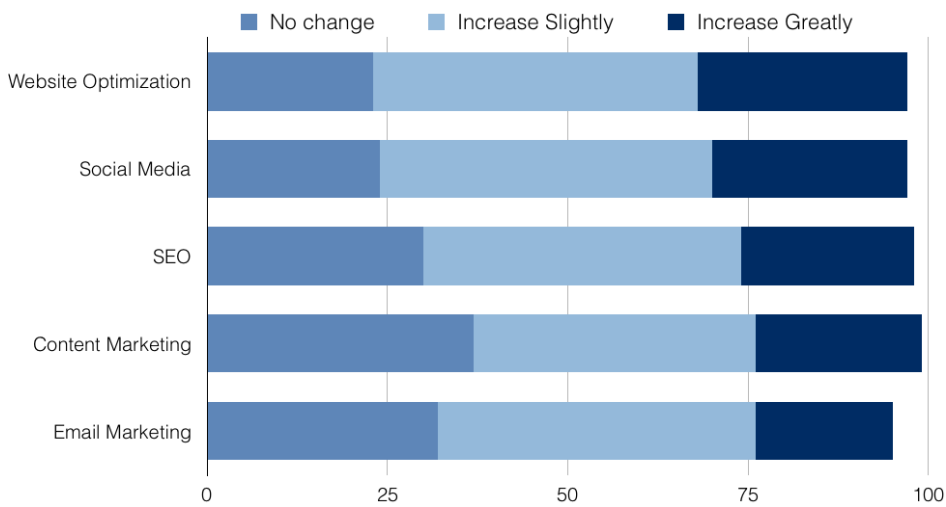


Exhibit 7: Consumer behavior process



Source: <http://theconsumerfactor.com/en/5-stages-consumer-buying-decision-process/>

Exhibit 8: Sales Engine Online



- Custom made solutions
- Pay according to results
- Online performance platform
- Global perspective

Source: SEO website

Exhibit 9: Sales evolution

Sales (€)	2010	2011	2012	2013	2014
Portugal	7.024.788,51	3.230.825,71	1.512.603,46	1.481.963,95	1.091.475,07
Brazil	NA	1.873.005,18	1.912.552,38	2.277.876,49	2.461.321,50
Mexico	NA	53.573,85	220.078,72	674.617,61	923.692,00

Source: ActualSales interview

Exhibit 10: Global competitiveness dimensions

Institution	Labor market efficiency
Infrastructure	Financial markets development
Macroeconomic environment	Technological readiness
Health and primary education	Market size
Higher education and training	Business sophistication
Goods market efficiency	Innovation

Source: Transparency.org

Exhibit 11: Argentina map¹⁵



Exhibit 12: Colombia map¹⁶



Figures

Figure 1: Porter's Five Forces¹⁹

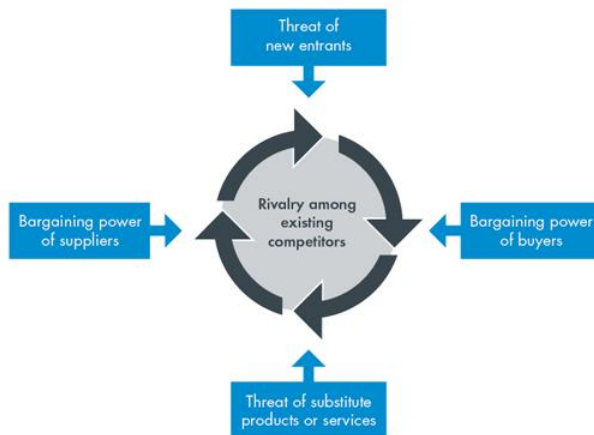


Figure 2: Porter's Generic Strategies²⁰

<i>Target/Market Scope</i>	<i>Advantage</i>	
	<i>Low Cost</i>	<i>Product/Service Uniqueness</i>
<i>Broad (Industry Wide)</i>	Cost Leadership Strategy	Differentiation Strategy
<i>Narrow (Market Segment)</i>	Focus Strategy (low cost)	Focus Strategy (differentiation)

Figure 3: CAGE Distance Framework²¹

	Cultural Differences	Administrative Differences	Geographic Differences	Economic Differences
Bilateral Measures	<ul style="list-style-type: none"> • Different languages • Different ethnicities • Different religions • 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 • Different climates 	<ul style="list-style-type: none"> • Differences in consumer incomes • Differences in availability of: <ul style="list-style-type: none"> Natural resources Human resources Infrastructure Information or knowledge
Unilateral Measures	<ul style="list-style-type: none"> • Traditionalism • Insularity • Spiritualism • Inscrutability 	<ul style="list-style-type: none"> • Closed economy • Nonmembership in international organisations • Corruption • Societal and political conflict 	<ul style="list-style-type: none"> • Geographic size • Geographic remoteness • Landlockness 	<ul style="list-style-type: none"> • Economic size • Low per capita income • Low level of monetization • Limited infrastructure

Glossary

Ad words: “Google AdWords is Google's online advertising program. Through AdWords, you can create online ads to reach people exactly when they're interested in the products and services that you offer.”¹⁹

Affiliate Marketing: “A way for a company to sell its products by signing up individuals or companies ("affiliates") who market the company's products for a commission.”

Banners: Also referred to as a *banner ad*, a *banner* is a typically rectangular advertisement placed on a Web site either above, below or on the sides of the Web site's main content and is linked to the advertiser's own Web site.

Display advertising: “refers to advertising that incorporates text, logos and pictures or images positioned on a website or search engine.”

Landing Page: The webpage where people end up after they click your ad. The URL of this page is usually the same as your ad's final URL.

Lead: “A lead is a consumer’s expression of interest in a product or service, coupled with some way of contacting that consumer to close the deal” (Willis & Theodore 2016).

Lead generation: Process of collecting names and contact information about qualified prospects, which will be contacted by the salespeople for generating orders.

Green Field Investment: “Green field investments occur when multinational corporations enter into developing countries to build new factories and/or stores.”

Key Words: “A word used by a searchengine in its search for relevant Web pages.”

Online media: “Digital media, which includes photos, video and music, distributed over the Internet, which are either non-copyrighted or copyrighted materials provided either freely or for free.”

Online Performance Marketing (OPM): “Performance marketing refers to marketing techniques and campaigns by which the advertiser pays only for results. Performance marketing is an important part of digital marketing due to the tracking capabilities of the Internet.” The industry comprises on two sub-segments – Affiliate Marketing and Lead generation.

Search Engine: “Search engines are programs that search documents for specified keywords and returns a list of the documents where the keywords were found.”

Search Engine Optimization: “is a methodology used to increase the amount of visitors to a website by obtaining a high-ranking placement in the search results page of a search engine. “

Website optimization: “procedures to optimize the speed at which your website loads in a Web browser.”

Literature Review

Internationalization Process

Strategy is a set of deliberately intended procedures or a consistent pattern of actions in which corporations engage to deal with a certain situation (Mintzberg, 1987). Internationalization – the amplification of commitment towards foreign operations (Welch, 1988) – encompasses on both consistency of actions and deliberate actions towards the foreign scenery, i.e. the internationalization process of a firm is a foremost dimension of the ongoing strategy of a firm (Melin F. , 1992).

Johanson and Vahlne (Johanson, 1977) theorized that the internationalization process is a consequence of firms’ incremental involvement with foreign markets, hence the progressive decrease of physical distance effects based on the accumulation of experiential knowledge.

Nonetheless, there are firms aiming at international markets straight from their foundation: born-global (BG) and born-again-global (BAG) firms. Distinction between both concepts lie on three key dimension such as *time* (speed of internationalization), *scale* (the export ratio or percentage of foreign sales) and *scope* (number of countries/markets the company is present at). The first supports that BG firms aim for international markets from inception, while BAG firms internationalize rapidly after operating for a rather longtime in their home markets; the second measures export intensity in which the 25% share of turnover from foreign markets of the total turnover criterion is often applied; and lastly Scope, where the temporal factor is viewed in two dimensions: precocity and speed (Kuivalainen, 2012).

When selecting the country in which to start internationalization there are essentially two types of approach: Incremental internationalization and non-sequential internationalization model. The first approach states that the foremost moment a firm starts its international expansion, the selection of countries should be equivalent to the country of origin, and later enter countries that are dissimilar. The second approach argues that if a firm possesses advantageous knowledge that allows the company to overcome internationalization difficulties may possibly choose a non-sequential internationalization approach (Cuervo-Cazurra, 2011).

The advancements of the Internet and development of information technologies have eradicated the concept of a world in which borders exist. Technology may be making the world a smaller place, but it is not obliterating the very tangible costs of distance. Considering this, Ghemawat states we live in a semi-globalized world where distance still matters. As such, distances between countries are based on four dimensions such as Culture, Administrative/ political, Geographic and Economic (CAGE). Each dimension comprises country-pairs, or bilateral characteristics that affect distance between two or more specific countries, and unilateral characteristics that affect a country's ability to engage in foreign trade with any given country, thus increasing distance. By taking the four dimensions of distance into account, a company's valuation of the relative attractiveness of certain foreign markets can be reformed (Ghemawat, 2007).

Culture and its influence in international operations has been subject of study for many years and by many authors – Hall's (1976), Hofstede's (1980) and Trompenaars' (1993), among others. In 1980 Geert Hofstede presented four basic cultural dimensions: individualism-collectivism, uncertainty avoidance, power distance and masculinity-femininity. A fifth cultural dimension – Confucian dynamism, known as long-term orientation - was later introduced in 1988. The degree in which these five dimensions are expressed in a given society as well as the combination of these allow for comparison between countries (Hofstede, 1984).

Therefore, firms start internationalizing to markets that have the lowest perceived market uncertainty, i.e. markets that are easily understood (Melin L. , 1992).

However, evaluating the effects of distance originated from a given country is merely the first step. A complete analysis should contemplate how a company's own

characteristics function in order to mitigate distance from foreign markets(Ghemawat, 2001).

Competitive advantage& Generic Strategies

Standalone resources do not generate capabilities. It is on the ability to coordinate groups of resources (capital, human, brand, etc) in a specific manner that firms are able to exploit and originate capabilities, central to the development of competitive advantages. In addition, the level in which competitive advantages are sustainable is intertwined with three basic concepts such as durability, replicability and transferability(Grant, 1991).

Porter suggests three generic strategies, based on target scope (broad or narrow) and competitive advantage (uniqueness or low-cost competency). The three generic strategies are cost leadership in which firms' compete based on prices and efficiency; differentiation strategy, in which firm provides unique features to the industry and lastly, focus or niche strategy, which consists on serving a specific target – customer, market, product, and location – either by engaging in a differentiation strategy or cost leadership strategy(Porter, 1980).

Industry Attractiveness

The attractiveness of an industry is related to the ability of firms being able to exploit potential revenues within the industry. Thus, the degree of competition and its intensity are the main driver of an industry's profitability. Competition pivots five forces: threat of new entrants, bargaining power of customers and suppliers, the threat of substitute products (or services) and rivalry. Understanding the dynamics among these forces and how they affect and influence the industry is paramount to determine whether a firm is able to create defendable or offensive position in the industry (Porter, M. 1979).

Teaching Note

ActualSales Portugal: the internationalization process and foreign market selection, was developed by Diana Conduto Viegas Moreira under the supervision of Professor Paulo Marcos, from Católica-Lisbon School of Business & Economics. The intention of this dissertation is to be analyzed and debated by students in the context of class discussion.

This dissertation is based on real events and actual experiences, serving the purpose of illustrating industry analysis, strategy definition, internationalization and market selection.

Furthermore, students should be familiar with the following concepts:

- Porter's five competitive forces
- Porter's generic strategies
- Hofstede's cultural dimensions
- CAGE distance framework

The following readings provide students with additional conceptual information for the resolution of the case.

1. Ghemawat, P. (2001). Distance still matters: The hard reality of global expansion. Harvard Business Review pp. 1-35
2. Grant R. (1991). The resource-based theory of competitive advantage: Implications for strategy formulation. California Management Review, pp.114-135
3. Porter M. (1979). How competitive forces shape strategy. Harvard Business Review, pp. 137-145.

Synopsis

ActualSales (AS) is one of the six subsidiaries owned by the Portuguese multinational ActualSales Group S.G.P.S., S.A. operating in the lead-generation industry, a sub-segment of online performance marketing (OPM). The 16-year-old firm was the pioneer in the industry and is the market leader in Portugal. Since AS started pursuing an internationalization strategy it has established new interdependent and autonomous subsidiaries in Spain, Brazil and Mexico.

The two main sources of competitive advantage of the company are the in-house technological development and a rigorous recruitment process, aligned with training and qualification policies that permit the company to deliver high-quality leads to its clients.

In recent years the industry growth pressed the company to accompany this evolution and follow the growth trend by expanding to new markets, setting the objective to reach at least 65% of revenue in foreign sales until 2018.

However, the industry's growth rate is not easily trailed when taken into consideration the resources the company possesses, more specifically qualified human resources that possess the leadership skills to manage foreign subsidiaries. It takes time to internally develop such skills and to then send for expatriation.

Henrique Agostinho, taking this consequence in consideration has prepared a presentation to the CEO. The plan depicts not only the international scene concerning the recent opportunity to expand to new Latin-American countries such as Argentina and Colombia but also resource restrictions.

In the conference call that is about to take place, Agostinho and Macedo will decide the future of the company and decide whether a new subsidiary should be implemented in Colombia or Argentina.

Use of the Case

This teaching case may be used to study real challenges imposed by the internationalization process of a company, from cultural aspects and given impact in the international business decision process (IB), to a broader variety of IB decision like market selection and foreign entry modes deployed.

Therefore, the following suggested assignment questions are to stimulate students to engage in international strategy thinking and discuss topics related to market and industry analysis, foreign country entry mode, cultural influence in the internationalization process, market analysis and selection, and firm's competitive advantages and generic strategy.

Suggested Assignment Questions

The following questions should be analysed and discussed by students during class:

1. Considering ActualSales landscape analyse:
 - a. Company's current position in the industry and KSF;
 - b. Industry attractiveness;
2. Define AS main sources of competitive advantage and explain if these are sustainable.
3. Define what is ActualSales current strategy.
4. Make a comparative cultural analysis for both Argentinian and Colombian markets considering the five dimensions of culture.
5. Analyse the following topics for both Argentinian and Colombian markets to infer differences across countries.
 - a. Cultural Distance
 - b. Geographic Distance
 - c. Administrative Distance
 - d. Economic Distance
6. Based on the company's current situation, industry attractiveness, core competencies, strategy and capitalizing on cross-cultural dimensions and the four cross-country differences elaborate a suggestion on what should be country/market of choice for internationalization.

Teaching Objectives

This case presents the following teaching objectives:

1. To have students acquire a comprehensive industry analysis by understanding the company's current position and industry attractiveness.
2. To have students understand the importance of detaining competitive advantages and how the sustainability of these affect business.
3. To highlight the importance of a consistent strategy aligned with the company's objectives, resources and opportunities.
4. To evidence the importance of country's cultural dimensions during internationalization and how these influence business.

5. To emphasize the importance of multiple factor country analysis when considering expansion.
6. To highlight the significance of a strong market and industry analysis has on a firm's strategic decisions.

Relevant Theory

SWOT Analysis

Often applied in the business context, is a framework that allows companies to evaluate its current status and to identify internal and external influences. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats.

Porter's Five Forces (1979)

Framework of five forces: threat of new entrants, threat of substitutes, customers and suppliers bargaining power and competition. The overall analysis provides insights on the attractiveness and competitive intensity of an industry (Figure 1).

Porter's Generic Forces (1980)

Business strategy definition and company's competitive advantage are intrinsically related. Therefore, for a company to achieve a long-lasting position in the industry or market where it operates in, it is fundamental to define a strategy in which major competencies are explored and maximized (Figure 2).

According to Porter (1980) there are three fundamental or generic competitive strategies: (1) cost leadership strategy, (2) differentiation strategy and (3) focus strategy.

Failure in following one of the three generic strategies, switching from one to another or not being consistent with a given strategy could lead companies' to be "stuck in the middle", which implies low profits due to firm losing for competitors.

Hofstede's Cultural Dimensions (1980)

The five dimensions of culture identified by Hofstede are: individualism-collectivism, uncertainty avoidance, power distance, masculinity-femininity and long-term orientation.

Power Distance

The reasoning behind the *Power Distance* concept is the measure of the degree in which individuals accept unequal distribution of power. It reflects societies expectations about

the relations in between managers and subordinates, leadership style, expression of opinion and so on.

Uncertainty Avoidance

It is defined as the level of tolerance to vague and unstructured situations and whether actions are taken to avoid such ambiguous conditions.

Individualism-Collectivism

This dimension is defined based on one's preference for acting as an individual instead of being a member of a group in a given society.

Masculinity-Femininity

Refers to the degree in which prevail traditionally masculine or feminine values. Masculinity is defined as condition in which the dominant values in society are accomplishment, money, and belongings, while femininity is defined as a condition in which the dominant values in culture are caring for others and the quality of life.

Long-term Orientation

Finally, based on Confucian dynamism, long-term orientation is related to the importance given to time horizon (past and future). It affects one's ability to be persistent and personal stability.

CAGE Distance Framework

This framework, developed by Ghemawat, lies on the principle that we live in a semi-globalized world. In other words, borders do matter and influence the internationalization process of firms.

The physical distance between countries is evaluated in different physical levels such as Culture, Administrative/ political, Geographic and Economic distance (Figure 3).

Culture

A country's cultural elements define how people interact with one another, with corporations and institutions. With language being the most obvious, other such as norms, values and principles are subtler to understand and have huge impact on tolerance and relationships.

Administrative or Political Distance

History and political relations shared by countries, such as colony-colonizer relations, trading arrangements and common currency affect trade between countries.

Geographic

This dimension seems to be most obvious; as a country is more distant, the harder is to conduct business in that country. However, not only kilometres are relevant, the quality of transportations, communications and infrastructures play a big role.

Economic

The economic health of a country, income and standards of life of consumers and resources possessed by the country affects the level of trade and the nature of partners located in the country.

Analysis & Discussion

There are six questions to be discussed and analysed during class, each corresponding to the suggested assignment questions as pinpointed above. Each question should be answered according to the following structure and for a proposed timeline of 90 minutes in total.

1. External and Internal Analysis (30 Minutes)
 - a. **Question 1** Current situation and industry attractiveness analysis.
 - b. **Question 2** Competitive sustainable advantages
 - c. **Question 3** Business strategy definition
2. Foreign market analysis (50 Minutes)
 - a. **Question 4** Comparative culture analysis (five dimensions).
 - b. **Question 5** Differences across countries: Cultural, geographic, administrative and economic distance analysis.
 - c. **Question 6** Elaborate a suggestion on what should be country/ market of choice for internationalization.
3. Summary and conclusions (10 Minutes)

The following assignment analysis is proposed:

External and Internal Analysis (30 Minutes)

Question 1 -Current situation and industry attractiveness

15 Minutes

It is expected from students to develop a SWOT analysis to assess the company's current situation in the industry it operates, followed by the resulting identification of the Key Success Factors (KSF).

Additionally, a Porter's five forces analysis is required to evaluate the lead-generation industry attractiveness (Figure 1).

SWOT ANALYSIS

Strengths

- Over 10 years of experience in Digital Marketing and Online lead-generation.
- Integration in a stable group - ActualSales Group - with revenues over 15 million Euros year (need data).
- Highly qualified human capabilities (knowledge and expertise) and continuous personnel development with in-house training.
- In-house technology development and in constant optimization, inclusively for the personal usage of clients, to maximize the value delivered by AS;
- Good and long-lasting relationship with suppliers.
- Loyal customer base with contracts on going for many years.

Weaknesses

- Necessity to adapt in-house online channels developed to international markets.
- Lack of consumer knowledge in foreign markets in which the company desires to internationalize to, such as Argentina and Colombia.
- Absence of an email marketing list affiliate base in Argentina and Colombia.
- Shortage of competent and qualified human resources to send for expatriation to convoy with the many business opportunities abroad.

Opportunities

- Accelerated growth of digital and online performance marketing industries worldwide.
- Capitalization of the current and loyal client base in Latin America that desire to extend the services provided by AS to Colombia and Argentina.
- Payment system based on success is a strengthening trend worldwide.

Threats

- Being online lead generation a relatively new industry with no pre-established reputation, new entrants that compete in this scene and are not able to deliver quality services and results are undermining the industry and pushing away potential customers.
- Economic and political instability of Latin-American countries in which ActualSales considers to internationalize into.
- The quality of suppliers for the online lead generation industry directly affect the success of established companies that capture and deliver leads.

Following the SWOT analysis it is requested to students to identify the company's Key Success Factors (KSF), i.e., which are the characteristics and activities vital for the company's success based on the competitive advantages. The following arguments are valid:

- ActualSales has a good reputation by being the market leader and pioneer of the online lead generation in Portugal, consistently proving its quality and expertise with increasing expansion and sales growth.
- The technology developed in-house for the usufruct of AS and its clients is a differentiating factor from competitors and enables to maximize the value chain of capture, delivery and conversion of leads to buyers.
- The company's ability to maintain good relations with suppliers and buyers, allows for continuously deliver superior quality services, and to grow, either by selling more to established and loyal customer base or by entering new markets due to client's demand.

PORTER 5 FORCES

Threat of Entry

The seriousness of entry threats is evaluated according to barriers presented when entering the industry alongside expected retaliation from incumbent firms.

- Economies of scale do not affect entry level;
- Easy access to distribution channels;
- Low capital requirements;
- Anticipated Incumbent response is close to welcoming;
- Reputation and previous success is important to win clients;

The overall analysis indicates a low level of threat of entry, which negatively affects the industry's attractiveness, by making it less profitable to operate in.

Suppliers' Bargaining Power

The threat of suppliers is evaluated under two perspectives: elements that increase or weaken suppliers' bargaining power.

Elements that increase suppliers' bargaining power are:

- Suppliers, though globalized, are very concentrated in few top players that are the best in the market;
- Low viable options of supplier substitutes;
- Supplier's products are highly differentiated, which provides protection against competitors;
- Low switching costs, yet the relationship with smaller suppliers would be sacrificed;

Elements that weaken suppliers' bargaining power are:

- Supplier forward integration is very unlikely and not feasible;
- Supplier volume/profit from lead generation companies is moderate to high, especially for email marketing list affiliates in which online lead generation businesses are the main buyers.

The overall analysis indicates a high suppliers' bargaining power, which negatively affects the industry's attractiveness by making it less profitable to operate in.

Buyers' Bargaining Power

The threat of buyers is evaluated under two perspectives: elements that increase or weaken buyers' bargaining power.

Elements that increase buyers' bargaining power are:

- Buyers' contract is indeterminate, which means that orders are often in large volumes;
- Buyers' loyalty allows them to be more demanding and negotiate prices.
- Buyers' switching costs are low;
- Buyers' success is not determined by the services purchased.

Elements that weaken buyers' bargaining power are:

- Buyers' information on competitors and differentiating attributes is low;
- Buyers' backward integration does not constitute a credible threat.
- Products purchased by buyers are customized and bespoke.

The overall analysis indicates a moderate to high buyers' bargaining power, which negatively affects the industry's attractiveness by making it less profitable to operate in.

Threat of Substitutes

As aforementioned, there are no substitute products. At most, exist different processes of capture and delivery of leads, related to the sophistication of the market.

Therefore, the threat of substitutes is extremely low which positively contributes for the industry attractiveness and profitability to operate in.

Threat of Competitive Rivalry

Intense rivalry is related to the existence of a number of aspects:

- The industry is generally fragmented and competitors are small;
- Exit barriers are low;
- The industry is growing worldwide and is expected to continue at a fast pace;
- Fixed costs are low;
- Differentiation exists among competitors;
- Capacity is not augmented in large increments.

The threat of competitive rivalry is low as competition is highly fragmented and the industry has an enormous growth potential at a fast pace. These positively contribute for the industry attractiveness by making it more profitable to operate in.

To conclude the Porter's five forces analysis for the attractiveness of the online lead generation industry, even though suppliers bargaining power is high, buyers' exert a moderate to high power of negotiation, and is an industry relatively easy to enter. The increasing and fast-paced industry growth, allied with relatively no substitute products and negligible rivalry make it an attractive industry to be in.

Question 2–Competitive Sustainable Advantages

(5 minutes)

Resources are the main foundation of firm's capabilities while capabilities are the basis of competitive advantage. Standalone resources are not productive, it is on the ability to cooperate and coordinate groups of resources (capital, human, brand, etc) in a specific manner that firms are able to exploit and originate capabilities, thus it is in the key relation between resources and core capabilities that arise competitive advantages.

ActualSales' resources for building capabilities, thus the sources of competitive advantage are:

- Technological: ActualSales invested in the development of channels and technology in-house (technological resources) since inception to maximize the value delivered through the process of capture and delivery of hot-leads (capability). Not only is a substantial part of differentiation from competitors as it allows to establishing with clients a role of support and constant one-to-one relation (competitive advantage).
- Human: Since recruitment, the company makes sure the best are chosen (highly qualified resources), followed by in-house training and investment (time, capital, expertise) to nurture autonomy, accountability, leadership and commitment – building capabilities. By doing so, the company is able to expatriate great identities to tackle new markets and foster internationalization, making this dimension another competitive advantage.

The question on whether these are sustainable is not simply a matter of assembling a team of resources to create capabilities; it is rather a process, which firms perfect through time, repetition and experience (learning curve). Some fail and some succeed.

Thus, sustainability lies on both firm's resources and capabilities being:

- Durable: underlying resources and capabilities are durable, i.e. do not become obsolete nor depreciate. As long as AS is able to continuously improve and adapt its technological resources to technological/ industry changes and clients' demands, as well as to recruit and train employees to face market and industry challenges the company should be able to hold durable competitive advantages.
- Non-replicable: relates to the degree in which competitors are able to appropriate and imitate AS competitive advantages. Technological innovation could be replicable, even though AS is continuously improving it; however in-house training is a combination of company's culture, complex routines and procedures that highly depend on the firm's leaders ability to motivate employees. It is an on-going process that requires time and commitment, thus less easily replicable.
- Transferable: some resources and capabilities are not easily transferable. One example of this is geographical mobility. Regarding AS, technological transferability has been proven possible and successfully done either in Brazil and Mexico. Yet, capable human resources have proven to be more challenging to transfer due to the time required to develop and nurture employees and prepare them to deal with adversity from foreign countries, i.e. the speed in which employees evolve and become ready for new opportunities in foreign countries is slower than the industry's growth, which affects ActualSales' internationalization progress.

Question 3 - Business strategy definition

(10 minutes)

In this question, Porter's generic strategies should be analysed, and students should identify AS main strategy, given the company's competitive advantage.

Porter's generic strategies are the following:

- Cost leadership: the key word for this strategy is efficiency. This strategy explores economies of scale and experience curve effects. It requires to continuously searching for reducing costs to provide the lowest cost per-unit (average) to the final consumer.
- Differentiation: consists on the delivery of a product or service that is perceived as unique through the industry. Competing under a differentiation strategy players are able to explore above average returns due to the premium price charged, based on the company's unique features such as brand image, technology, process, design, customer's service, etc.
- Focus: also named niche strategy it consists on serving a specific target – customer, market, product, and location – either through a differentiation or low cost strategy.

ActualSales' strategy is a clear differentiation strategy.

Students may argue that customer emphasis implies a focus strategy, i.e. that AS's in-house technology development and innovation are the result of client's demands for innovation and delivery of superior quality.

Another argument could be the long-term client relationship, that forces AS to follow its client's footsteps by following them into new geographies.

However, AS has established its first-mover reputation by being able to cope with the industry's fast changing environment due to employee expertize and in-house developed channels that maximize the process of capture and delivery of hot-leads.

This unique combination of innovation and employee expertize granted AS to exploit customer loyalty, which lowers price elasticity of demand; delivery of bespoke services,

which are unique, hence reduces the need for a low-cost advantage; and to stand out from competitors.

Therefore, AS has followed an aggressive quality and performance focus, the foundation of the company's differentiation strategy whose pillars are people and technology.

Foreign market analysis (50 Minutes)

Question 4 - Culture five-dimension analysis

(15 minutes)

In this section is asked of students to make a comparative cultural analysis of both Argentina and Colombia, based on the five dimensions of culture identified by Hofstede which are power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity and long-term orientation (see relevant theory, Hofstede's 5 culture dimensions).

Power Distance

From the case students should be able to infer that Argentina is less prone to accept unequal distribution of power and is one of the Latin-American countries that scores the lowest in this dimension.

“As a consequence, individuals are less prone to accept unequal distribution of power, making Argentina far from the much higher values typical of other Latin-American countries.”

In contrast, Colombia scores higher in this dimension: “In Colombia, inequalities amongst individuals are contemplated as fact of life and it is broadly recognized within all layers of society.”

Uncertainty Avoidance

Both Colombia and Argentina score high in this dimension, with the latter scoring a little higher.

From the case students should find: “Argentina (...) characterizes a strong necessity for rules and complex legal systems in order to structure life.”, while for Colombia “There are extensive rules for everything; nonetheless rules are not inevitably followed.”

Individualism-Collectivism

Regarding this dimension, students should point Argentina scores lower than Colombia, even though few collectivist traits emerge in Argentinians, i.e. Argentina is the most individualist country in Latin America.

In the case “Argentina (...) is also the less collectivistic oriented, though slight traits of collectivism still emerge such as obligations towards family and opinion of others.” While for Colombia “competition is only towards other group members and never with those in the same group.”

Masculinity-Femininity

Masculinity traits are highlighted in the text as “Argentinians are extremely achievement oriented, have strong ego needs and the urge to stand out and excel.” while “Colombians are success driven, status oriented and competitive. “

Students should be able to conclude that both countries are masculine.

Long-term Orientation

Finally, in this last dimension both Argentina and Colombia are not long-term oriented, rather focused on search for quick achievements and results.

To conclude this comparative cultural analysis based on Hofstede’s 5 dimensions of culture, both Argentina and Colombia exhibit masculine traits, are highly dependent of rules (uncertainty avoidance) and are short-term oriented by seeking quick achievements.

However, Argentina exhibits the lowest levels of collectivism, a typical trait of Latin-American countries, with Colombia being extremely collectivist, seeking identity establishment from within the group.

In addition, power distance is reflected differently in both countries, with Colombia scoring high and Argentina lower.

Question 5 – Differences across countries: cultural, geographic, administrative and economic distance analysis.

(20 minutes)

In this section, students are asked to use the CAGE framework for country analysis (Figure 3) and compare Argentina and Colombia from a Portuguese perspective. In the case study, students can find information regarding the two Latin-American countries and appendices 1 and 2 contain additional information concerning Portugal to aid for the resolution of this question.

Cultural Factors

Spanish is the official spoken language of both Argentina and Colombia, however in Argentina, due to the immigration wave in 1900, a wider variety of spoken languages such as English, Italian, German and French makes this country closer to Portugal as language concern.

Concerning ethnic groups, Argentina with 97% white (mostly Spanish and Italian), followed by mestizo, while in Colombia mestizo represent 58% followed by white 20%; the first exhibits a finer proximity to Portugal.

Both countries most predominant religion is Roman Catholic, same as Portugal.

In addition, either Argentina or Colombia is open to international trade and direct investment, with Argentina standing out due to commercial relations with Spain and Germany (EU).

To wrap-up the cultural factors analysis, Argentina reveals signs for closer proximity with Portugal.

Administrative Factors

Argentina and Colombia shared colonial ties with Spain until 1816 and 1919 respectively. Such ties influenced, not merely, the legal system in both countries that is greatly similar to Spanish law and west Europe.

Both countries have its own currency, the Argentine Peso (ARS) and the Colombian Peso (COP). Comparing the exchange rates of the three countries, ARS seems more favourable; however, the cost of living in Argentina is 12.37% higher while in Colombia is 38.25% lower.

Unilateral administrative characteristics provide additional clear-cut conclusions. Colombia's criminal activity, the infamous drug illegal commerce, deteriorated economic situation and the signs of weakness presented by the labor market may discourage trading between foreign countries. Argentina, even though had exited default in late April, the aggressive reform imposed by Macri and the massive discontent in the country with thousands of people protesting against austerity and layoffs seem to dismay.

In addition, the perceived corruption index for both Colombia and Argentina is high, with Argentina slightly superior.

Under this dimension of analysis both countries seem to discourage either direct foreign investment or green field investment. Nonetheless, Colombia exhibits a main source of proximity to Portugal due to a lower cost of living.

Geographic Factors

Colombia's physical distance to Portugal is lower than Argentina, with 7,642 and 10,304 kilometers respectively and population in Colombia is higher than in Argentina. Nevertheless, Argentina is the second largest country in Latin America and borders with Brazil, the first largest country.

As for climate, Argentina being mostly temperate is more similar to Portuguese Mediterranean climate, differing to Colombian tropical and humid climate. In addition, Argentina's time zone is four hours behind Portugal while Colombia is six hours behind.

Economic Factors

In both Colombia and Argentina, exist a big gap in the distribution of wealth, according to the Gini index of both countries (53.5 and 42.3 respectively).

The monthly average income is higher in Argentina with a difference that goes from 49 to 287 USD of highly skilled people and from 25 to 154 USD for low skilled people

Both countries have seen its GDP per capita drop in the past three years, yet GNI per capita is higher in Argentina than in Colombia.

The dimension for global competitiveness is higher in Colombia, which scored 4.18 out of 7, while Argentina scored 3.87 out of 7, i.e. Colombia shows moderate levels of global competitiveness.

The human development index is very high for Argentina and high for Colombia, while values for country's voice & accountability is moderate for Argentina and low for Colombia.

In essence, the landscape regarding economic factors of both countries seem quite similar screening a big gap in wealth distribution, GDP consecutively falling and global competitiveness scored moderate to low. The main factor of distinction would be the human development index that is greater in Argentina.

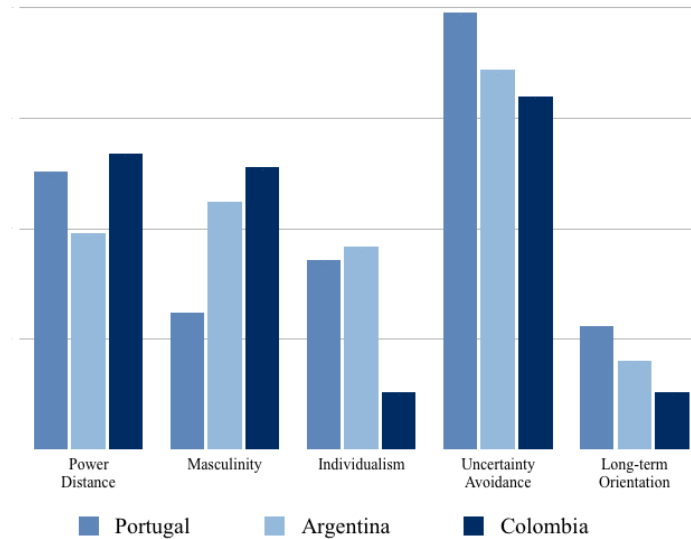
Question 6 - Elaborate a suggestion on what should be country/ market of choice for internationalization.

(15 minutes)

In this and last questions students should be able to elaborate a suggestion for country/ market choice based on the analysis done so far, i.e. conjugate the firm's strategy and objectives considering its competitive advantages, current situation and industry attractiveness with the cross-country analysis performed.

Starting with the cultural analysis based on Hofstede's 5 dimensions, as analysed previously both Argentina and Colombia were very similar in three dimensions: Masculinity, Uncertainty Avoidance and Long-term Orientation. The main difference were in dimensions Individualism-Collectivism and Power Distance.

Taking this in consideration, students should look for the same dimensions regarding the Portuguese picture. For Individualism-Collectivism, Portugal is more similar with Argentina while for Power Distance is more similar to Colombia.



Source: <https://geert-hofstede.com/countries.html>, adapted by the author

Considering the ambivalent information, further information should be looked into. Moving to the cross-country CAGE framework distance analysis, under the **cultural factors** analysis Argentina seemed the most proximate to Portugal.

Moving forward to **Administrative factors**, as pinpointed a lower cost of living in Colombia seems a good motive for establishing a new subsidiary in the country, even though the average investment on starting a new venture is around 100,000€, the company could benefit from higher purchasing power in Colombia.

Regarding **geographic factors**, Colombia is geographically closer to Portugal than Argentina, however Argentina borders with Brazil and AS has a subsidiary in Brazil for longer than in Mexico, accounting for an established reputation and a supplier base which could benefit from.

Concerning **economic factors**, Colombia scores higher in global competitiveness while Argentina scores higher in human development. In addition, the monthly average income is higher in Argentina. As AS is concerned, even though human development is an important measure, global competitiveness may stand out as it accounts for numerous relevant dimensions (exhibit 10).

Additionally, Colombia has a lower monthly average income compared to Argentina, which is an important factor since one of the firm's main competitive advantage lies on human capital, hence the cost of human capital acquisition would be lower.

To conclude, although the CAGE distance framework is a suitable tool to deduce country differences, in this case both Argentina and Colombia exhibit similar characteristics mostly due to being former colonies of Spain, among other topics; thus an obvious and unarguable decision of market choice is not evident, remaining a matter of debate.

Therefore, it is important for firms to look for further and additional information to base their decision upon, either external or internal.

In the case, students may find additional information regarding whether a country is (or not) business friendly, the disclosure of proprietorship as well as time, cost and procedures required to start a new endeavour. Taking all of this information to formulate a valid suggestion, Colombia stands out by being the most business friendly country, lower costs and procedures as well as less time required to start a new business.

Therefore, considering the triggers for internationalization derived from new contract opportunities that result from already attained clients, AS could (and should) look for clients' past history, current relationships and expected future opportunities as a base for the final decision.

Agostinho's presentation to the CEO André Macedo should go through all topics discussed and analysed in this case in order to highlight all pros and cons of each geography. Only then, both are able to make a rational conclusion in order to realize the objectives set for 2018.

Appendices

Appendix 1: Argentina vs Colombia

	Argentina	Colombia
Spoken Languages	Spanish, English, Italian, German and French	Spanish
Distance to Portugal	10,304 kilometers	7,642 kilometers
Country Population	43 million citizens with 48.9% male and 51.1% female	48 million citizens with 49.2% male and 50.8% female
Ethnic Groups	97% white (mostly Spanish and Italian), mestizo, amerindian and other (2005)	Mestizo (58%), white 20%, mulatto 14%, black 4% and other (2005)
Religion	Roman Catholic (92% with less than 20% practicing), protestant 2%, other (2005)	Roman Catholic (90%) and other (10%). (2005)
Climate	Mostly temperate	Mainly tropical and cooler in highlands
Time Zone	GMT -3; 4 hours behind Lisbon	GMT -5; 6 hours behind Lisbon
Main exportation countries	Brazil, Chile, US, China and Spain (2005)	US, Venezuela, Ecuador (2005)
Main import partners	Brazil, US, Germany and China (2005)	US, Venezuela, China, Mexico and Brazil (2005)
Currency	Argentine Peso (ARS); USD-ARS is 13.978 ARS (May)	Colombian Peso (COP); USD-COP exchange rate is 3.056 COP (May 2016)
Unemployment Rate	7.3 %	8.9%
Annual Inflation Rate (CPI)	10%	5%
Gini Index	42.3	53.5
Perceived corruption Index	32	37
Global Competitiveness	3.87	4.18
Human Development Index	Very High	High
Voice & Accountability	0.3	0.18 (negative)
Disclosure of proprietorship and financial information	7	9
Ease of Doing Business	121	54
GNI per capita	13,480 USD (2014)	12,910 USD (2014)
Cost of Starting a New Business	2,035.48 USD (average, 2014)	968.20 USD
Internet Users (per 100 people)	64,7	52.57
Time Required to Start a	25	11

New Business (in days)		
Number of Procedures to Register a New Business	14	18

Appendix 2: Portugal fact book

Geography and Demographics

Capital: Lisbon.

Location: Southwestern Europe, bordering the North Atlantic Ocean and west of Spain.

Total Area: 92,391 square kilometers.

Languages: Portuguese. English, Spanish and French are the three main foreign languages most spoken; though only literate citizens are able to either talk or understand.

Ethnic groups: Mediterranean, African descent who immigrated to mainland during decolonization number less than 100,000; since 1990 East Europeans have entered Portugal and the entering flux of black Africans from former colonies is quite common.

Religions: Roman Catholic 94%, Protestant.

Population: 10 310 762 (2016)

Male: 48.5%

Female: 51.5%

Age Structure (2016): under 15 – 16.2%, between 15 and 64 – 65.8%, over 65 years old 18%.

Government type: parliamentary democracy

Legal system: civil law system; the Constitutional Tribunal reviews the constitutionality of legislation; accepts compulsory ICJ jurisdiction, with reservations.

Climate: maritime temperate; cool and rainy in north, warmer and drier in south.

Cultural Analysis (Hofstede's)²²

Power Distance: 63

In Portugal hierarchical and power distance is established and accepted, therefore those who reach higher social status and powerful positions benefit of privileges.

Individualism/ Collectivism: 27

Portugal, when compared with the rest of the European countries, is collectivist (except for Spain). Long-term commitment and loyalty to family, friends and group members is seen as paramount and takes a big importance for the individual.

Masculinity/ Femininity: 31

Considered a feminine country, caring for others, solidarity and quality of life are the main characteristics of such societies. In Portugal the key word is consensus, thus excess is not well seen. Negotiations often take place to solve opposite points of view and individuals are seen as flexible.

Uncertainty Avoidance: 99

Translates to really high preference for avoiding uncertainty, being one of the dimensions that characterize Portugal the most. High level of uncertainty brings great anxiety; therefore inflexible codes of conduct and principles are preserved and individuals should abide. Portuguese are narrow-minded of unconventional behaviors and ideas such is the emotional need for following pre-established principles.

Long-term Orientation: 28

The country scores low for long-term orientation, which implies time-honored traditions and a practical approach of accomplishing quick results, are encouraged. The need for living in the moment and to enjoy life is paramount.

Economic and Administrative Outlook

Recently gone through economic crises and in recovery, the country's GDP per capita in 2015 was 19,266.82 USD and growing since 2012 (17,896.38). 5 The GDP composition by sector in 2006 was first services (65.9%), followed by industry (28.9%) and agriculture (5.2%).

Natural resources: fish, forests (cork), iron ore, copper, zinc, tin, tungsten, silver, gold, uranium, marble, clay, gypsum, salt, arable land, hydropower.

Industries: textiles and footwear; wood pulp, paper, and cork; metals and metalworking; oil refining; chemicals; fish canning; rubber and plastic products; ceramics; electronics

and communications equipment; rail transportation equipment; aerospace equipment; ship construction and refurbishment; wine; tourism.

Exports - partners: Spain 25%, France 14%, Germany 13.5%, UK 9.6%, US 6%, Italy 4.3%, Netherlands 4% (2004)

Imports - partners: Spain 29.3%, Germany 14.3%, France 9.3%, Italy 6.1%, UK 4.6%, Netherlands 4.6% (2004)

Currency: Euro

Exchange rate EUR-USD is 1,11748 USD (May 2016)

Cost of living:²³

- Cost of living in Colombia is 38.25% lower than in Portugal
- Cost of living in Argentina is 12.37% higher than in Portugal

Domestic demand annual variation: 2.4% (2015) (Banco de Portugal)

Unemployment rate: 12.7%

Inflation rate (annual consumer prices): 2.7%

Gini Index: 34 (2014)²

Governance and Development Indicators

Corruption Perceptions Index: 63 (2015)

Top three institutions perceived as the most corruptive are political parties, parliament and legislature and lastly police. (2015)

Control of corruption: 1.03

Global competitiveness Index (2012 – 2013): 4.40

Human development index (2011): Very High

Voice & Accountability (2010): 1.12

Business extent of disclosure index (2016): 6

Gross National Income (GNI): 21,360 USD (2015)

Average cost of starting a new business: 470 USD (2015)

Number of internet users per 100 people: 64.59 (2014)

Average time required to start a business: 2.5 (2015)

Number of procedures to register a new business: 3 (2015)

Appendix 3: Structure of the first interview

Interviewer: Diana Moreira, Author

Interviewee: Henrique Agostinho, Managing Partner and responsible for the Latin American subsidiaries

Date: March 16th 2016

Since the interviewee is in Brazil, the interview was conducted through Skype call.

The interview was conducted structure free.

1. Firstly, the interview was conducted in order to understand the purpose of the ActualSales Group, the business and to know a little of each subsidiary.
2. Secondly, were discussed several dilemmas, present and past, ActualSales had to go through. Three dilemmas were discussed, and later one was chosen: the internationalization process of ActualSales (subsidiary) and foreign market selection (Argentina vs Colombia).
3. Lastly, the process of lead generation, information about the industry, company's client base, internal processes, drivers for internationalization and the reality of the Portuguese and Brazilian subsidiaries were explored.

Appendix 4: Structure of the second interview

Interviewer: Diana Moreira, Author

Interviewee: André Macedo, CEO and founder of the ActualSales Group

Date: April 11th 2016

Since the interviewee was in Spain, the interview was conducted through Skype call.

The interview was conducted as follows:

- How ActualSales started. What is the history behind it.
- AS Group internationalization drivers: new subsidiary vs working new geographies from the headquarters. Each subsidiary has its own internationalization process and management.
- Internationalization history: failures and successes.
- History of Brazil and México.
- Firm's strategy (differentiation)
- Competition
- Assets, resources and capabilities

The information provided in the interviews is portrayed in the case study.

Appendix 5: Structure of the third interview

Interviewer: Diana Moreira, Author

Interviewee: Henrique Agostinho, Managing Partner and responsible for the Latin American subsidiaries

Date: May 4th 2016

Since the interviewee is in Brazil, the interview was conducted through Skype call.

The interview allowed answering to the following topics:

- ActualSales objectives. Facts and figures;
- Opportunities and threats;
- Technology developed in-house
- Skilled Human resources: who they are and what they do.
- Competitors / substitutes
- Suppliers
- Buyers / clients & consumer behavior
- Distribution channels

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²² Portugal cultural dimensions

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Glossary

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²⁶ Affiliate Marketing

²⁷ Banners

²⁸ Display Advertising

²⁹ Landing Page

³⁰ Lead

³¹ Lead Generation

³² Greenfield Investment

³³ Key Words

³⁴ Online Media

³⁵ Online Performance Marketing

³⁶ Search Engine

³⁷ Search Engine Optimization

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