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LOCATION CHOICE DILEMMA

THE INTERNATIONALIZATION OF TECHNOLOGY-BASED COMPANIES

Fall 2013

CATÓLICA LISBON
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Master of Science in Business Administration

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ABSTRACT

Title: Location choice dilemma: The internationalization of technology-based companies

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Zaask is a Portuguese technology-based company (TBC) created in 2012, May. Its mission is to develop and promote an online marketplace for services and to be able to effectively match the clients' demands with those of services providers.

With growing and encouraging prospects in the domestic market and with promising expected returns from scale economies, inherent to TBCs, the company is planning to start its internationalization process. This work constitutes an attempt to address the three-step critical decision - *why?, where?* and *how?* – confronted by any company at the beginning of the process.

The forthcoming main question for Zaask is related to the foreign market choice. This case study provides an overview of the company and tries to address the Zaask's dilemma from a global perspective. In this context, this thesis will also provide support to a teaching case study within the subject of International Strategy. Therefore, this case study will conduct a strategic analysis of the Zaask's internationalization strategy, identifying the relevant location choices variables, opportunities and threats of possible markets, among others.

Keywords: Entrepreneurship, Location choice dilemma, Internationalization strategy, Technology-based companies, Start-ups.

RESUMO

A Zaask é uma empresa Portuguesa de base tecnológica criada em Maio de 2012 com o objectivo de desenvolver e promover um mercado online de serviços, possibilitando um encontro eficiente entre a procura e a oferta. As perspectivas de crescimento promissoras no mercado doméstico, bem como o retorno esperado das economias de escala (inerentes a empresas de base tecnológica) fazem com que a empresa tencione expandir a sua actividade a nível internacional. Esta dissertação constitui uma tentativa de analisar os três passos decisivos – *porquê?, onde?* e *como?* – com que qualquer empresa se debate no início do seu processo de internacionalização.

As principais questões abordadas estão relacionadas com a escolha de mercado por parte da Zaask. Este caso de estudo oferece uma visão geral sobre a empresa e constitui uma tentativa de apoiar a sua decisão em termos de escolha de mercado.

Esta dissertação poderá também ser utilizada como suporte à elaboração de estudos de caso sobre o tema de Estratégia Internacional. É efectuada uma análise estratégica do processo de internacionalização da empresa, onde serão identificadas as principais variáveis que poderão influenciar esta decisão, bem como as principais oportunidades e ameaças presentes em cada mercado potencial.

ACKNOWLEDGEMENTS

This dissertation represents the end of my master degree in Business Administration, an important stage of my life as a student. During the past years I had the opportunities to learn from great professors, but also from the professional experience and friendship that helped me during my academic journey.

Firstly, I would like to thanks to all my family - mainly my parents, brother and godmother - for all the support that they gave me during this fruitfulness expedition and the opportunity that they gave me to learn, experience and grow as a person and for giving me the opportunity to pursuit my academic and personal goals.

Secondly, I would like to express my gratefulness to my thesis advisor, Nuno Cardeal, for all the support and critical feedback given to me during the last months. He played an important role in all this process.

I am grateful to Luis Martins as well as to Kiruba Eswaran, co-founders of Zaask, and other members of Zaask for all support and help that they gave me during all phases and for allowing me to write a case study about this Portuguese company have been showing a large potential. This case study would not have been possible without their availability and support.

Lastly, but not the least, I would like to thanks to all my friends, specially my boyfriend Nuno Coelho, for their genuine opinion, honest feedback and suggestions that helped me to improve my master dissertation. And for their truly friendship during my academic and personal life.

TABLE OF CONTENTS

LIST OF EXHIBITS

I. Case Study

1.1 Introduction

The aim of this case study is to address a critical point of international strategy, which is foreign market choice dilemma.

Zaask was the Portuguese technology-based company chosen to illustrate a real case of location choice dilemma. The main question for Zaask is to understand which market(s) is the best one to start its internationalization. Therefore, the first part of this case study summarises the Portuguese technology-based company chosen. The evolution of the company is described in the second section. In the third section, it will be presented the analysis of a set of variables that can influence technology-based start-ups' foreign market choice.

1.2 Company overview

Two young entrepreneurs, Luís Martins and Kiruba Eswaran, noticed the difficulty for customers to find local services providers such as Plumbers, Carpenters and other providers of Construction & Home related Services. They observed that the service market place was not properly organized and decided to try to fill this gap with their own venture.

"Considering there is a failure in the way how local services promote themselves. Solving that failure, we are able to help entrepreneurs, small businesses and individuals in many different subjects, taking advantage from their talent and grow connecting to social and economic impact. From Luís Martins to Energia de Portugal, one of the heads of platform." [1]

[1] Expresso Online - available at http://expresso.sapo.pt/mercado-de-servicos-locais-da-zaask=f820524#ixzz2hpV7bIzg (Accessed 15 October 2013)

In addition, the founders were also encouraged by three main factors: (i) it was possible to take the offline business into the online world thus greatly reducing the procurement costs whilst ensuring that customers are presented with the best options available in the market, (ii) the bleak economic outlook could provide a strong market opportunity by encouraging more service providers to be part of the business and by presenting demanders of services a set of different prices that they could choose from, and, finally, (iii) The success of similar business cases in some advanced markets.

The result was the first Portuguese online market for local services that puts together customers and service providers in one online platform, an Online Marketplace for Local Services. Founded in May, 2012, Zaask is the online platform created to this purpose and is now a successful start-up company with promissory returns and with a growing database of services' providers.

1.2.1 Value proposals of Zaask

The company offers significant value proposals both for services providers (denominated as *taskers*) and for customers (denominated *askers*).

There are three main advantages for *taskers (aka Service Providers)*, the possibility that they have to create an online reputation (they receive a performance evaluation at the end of the service), pay on performance (they pay only when they win business through Zaask) and free promotion of their services through Zaask's marketing channels. Hence, Zaask's CEO defends that Zaask represents an efficient channel for *taskers* to win new customers.

In return, *askers* have the possibility to get access to free quotes from multiple services providers (some *takers* are recommended by Zaask after an in-depth analysis of their profile), at the same place and often at lower prices, which allow them to save time and money. Moreover, reviews of previous services provided try to contribute to reduce the risk of *askers* not to choose the first-best *tasker* that would maximize their utility (given all the *taskers* available for the service).

Zaask also guarantees security in the payments. The *tasker* can only withdrawal its payment (deposited in advance in the company's accounts) after the *asker*'s authorization upon the successful completion of the service. Therefore, the *tasker* is certain that he/she will receive the correct payment and at the same time the *asker* is guaranteed of refund if the service provided misses his/her expectations.

1.2.2 Organization structure and culture of Zaask

Zaask is a technology-based start-up whereby its organizational structure is simple. The company, which is composed by a total of eight people, is divided into three areas: Software Development, Marketing & Analytics and Community Management **(Exhibit 1**). The other secondary services that the company needs, such as designers and accountants are outsourced.

The main mission of the Software Development department is to determine and implement the best technological solutions that allow Zaask to maximize its business model and value. On the other hand, the aim of the Marketing & Analytics department is to ensure that the best monitoring & controlling systems are in a position which enables the company to have an effective continuous improvement process and additionally to guarantee that every penny spent in marketing yields a very high ROI.

Finally, the value for *taskers* is enhanced by the Community Management department, which regularly monitors their profiles and activity. This area is also responsible for ensuring that *askers* always find the best solutions for their needs by guaranteeing a proper match between the two agents.

The Community Management department is a cornerstone inside the company. The aim of the community managers is to guarantee that there is the perfect oversight of the tasks from the beginning of the process, when they are launched in the platform, to the very last end, when *taskers* receive their payment in exchange for the service provided. They are also responsible to understand *askers* and *taskers*'s preferences and determine future actions for improvements that should be addressed by the company.

The information collected by them through the close interaction with *taskers* and *askers* are of the utmost relevance for the management of the firm and are key inputs for the other areas of the company. It means that the community management department is the core of Zaask and, due to its deeper interaction with the customers and understanding of the market, makes it an area that is the most difficult to replicate.

The informal work environment and the physical proximity of all departments are behind the easiness with which knowledge can be shared. In the weekly meeting, the employees share ongoing developments, challenges and difficulties in achieving weekly goals and establish goals for the next week backed by insights from each other. The weekly monitoring of the business gives the company one of its key strengths and help in setting up short-term objectives.

Moreover, the company's fast growth has been driven in part by the views and stances of the two founders, Luís Martins and Kiruba Eswaran. Luís describes himself as more intuitive and more risk-taker than Kiruba. Therefore, while the first adopts an open-minded and aggressive attitude towards uncertainty, Kiruba is more conservative. The confrontation of the two personalities has been crucial to the success of the company.

1.2.3 The evolution of Zaask

The business model of Zaask is based on revenue sharing (aka Commission based). The commission-based business model generates a fee from a transaction between an *asker* and a *tasker*. While there is more risk for Zaask in a commissions-based model, the rewards are potentially higher as well.

In case of Zaask, these commissions are variable, i.e., the bigger the transaction the lower is the percentage of commission (**Exhibit 2**). Since the business model is based on commissions, the company only wins if the service providers do win, which results in a win-win situation for both the company and *taskers*. This win-win situation guarantees that Zaask employees are always highly committed to improving and bringing newer clients for its services' providers.

The number of transactions (services successfully completed), their value and the number of Zaask's users have been steadily increasing. The number of tasks posted per month has also been increasing month-by-month; for instance, the number of tasks posted was more than 25 times higher in October 2013 than in the first month of activity (**Exhibit 3**). The number of new users per month and the value of monthly transactions have also been also increasing on a monthly basis. Indeed, the value of transactions paid in October 2013 was more than 150 times higher than in the first month of when transactions were made available, in June 2012 (**Exhibits 4 and 5)**.

1.3 From Portugal to the world

Zaask, as a technology – based company, has always assumed to become international. Its business model, depends on a high number of effective transactions as economies of scale are in place.

Portugal is an emergent market for internet businesses and its internet/smartphone penetration rate puts it at the crossroads of both Southern Europe and Latin America. Hence, companies willing to explore Latin American countries or Western European Countries may try to benefit from Portugal's strategic positioning.

The fact that the Portuguese market is largely centered around Lisbon enables Zaask's managers to run controlled tests to estimate the impact of changes to operation methods or the business model. Additionally, the managers' knowledge of the market allows them a quick turnaround and lower costs. The Zaask's co-founder and CMO, Kiruba Eswaran, defends that a "test phase" before the internationalization will allow the company to avoid a snowball of mistakes.

The company does not have direct competitors either in Portugal or in Europe, which means that there are many opportunities to explore outside Portugal. There is a whole new market awaiting such a revolutionary concept and Zaask may benefit from it by creating brand awareness and a reputation of quality before the entrance of competitors.

The founders of Zaask have been formulating a detailed the company's Internalization strategy. They have already a clear plan in terms of *how* they want to internationalize the company but lack the finer details on *where* they want to do it.

The company's managers decided that they would centralize the decision-making process, thereby maintaining the software development efforts in Portugal. With the centralization of the executive power in one country, the managers are trying to ensure that best practices can easily be transmitted and implemented in other countries and, therefore, reduce overhead costs.

They will only decentralize the Community Management department on the basis of local knowledge, i.e., companies must adapt to local markets and for that they need to know them. The success of the company will therefore rely on the ability of Community Managers to speak the same language as *askers* and *taskers* as well as to understand strategic social aspects (which determine keywords in online searches, for example). Managers decided to use direct investment (internal funding), such as wholly owned subsidiaries, as the preferred entry mode. The Zaask's co-founder and CMO, Kiruba Eswaran, argued that this entry mode strategy allows Zaask's managers to have full control of the firm influences decisions, systems and methods, for instance. He also added that this strategy is important "*especially at an early stage, it is of paramount importance a lot of resources can be shared thus keeping the costs very low and a method adopted in one country could be easily shared with the other*".[2]

The *where to* is now the biggest issue. Having defined the *how*, Zaask is now faced with multiple destination optional countries but no decision was made yet.

1.4 Location choice dilemma

The main goal of this dissertation is to study the variables that will likely influence the choice of the foreign market for the beginning Zaask's internationalization. Currently, Zaask is studying the possibility to enter in one of three countries (or in more than one at the same time): Spain, United Kingdom and Italy. The choice of these three countries is based on the (i) geographic proximity, since it would be less expensive for the company to generate foreign contacts and the skills required, (ii) market knowledge as a result of managers' previous international professional experience and (iii) market size, since for Zaask's co-founder and CEO, Luís Martins, the UK is the bigger European market.

[2] Interview with Kiruba Eswaran, Zaask's Co-Founder and CMO.

Here, three countries would be analyzed in order to understand the most important variables, from demand-side and supply-side, that a technology-based company has to take into consideration when it wants to internationalize. The countries will be analyzed in terms of (i) political environment, (ii) economic outlook and (iii) cultural habits.

1.4.1 Political environment

In Italy, as well as in Portugal, a parliament democracy prevails, which means that the parliament is elected every five and four years, respectively, by its citizens. In turn, Spain is a constitutional monarchy with executive power resting on a two-chamber parliament, whereas, the UK, while also being a constitutional monarchy, has a parliamentary democracy. The UK is a centralized state and not a federation. However, for historical reasons, the UK does not have a single unified legal system, which means that there is one system for England and Wales, another for Scotland, and a third for Northern Ireland. Much modern legislation, for instance tax legislation, is applied throughout the UK.

All the three countries that Zaask is analysing are members of the European Union (EU), as is Portugal. Hence, as European Union's members, these countries belong to a Custom Union, which means that there are no barriers to the circulation of capital and human resources between them and that there is freedom to establish (according to the Treaty on the Functioning of the European Union[3]). Despite this freedom of capital circulation, there are some exceptions for foreign investment mainly for strategic sectors, such as industries related to armament, explosives and activities related to national security, the strategic sectors depend from country to country.

The UK is ranked 28th out of 189 economies in the index "Starting a Business" of the Doing Business 2013-2014 report. The topic covers the number of "steps that entrepreneurs can expect to go through to launch their business, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita". In the same ranking, Italy and Spain ranked 90th and 142nd, respectively, and are distant from the UK and from Portugal, which is ranked 32nd.

[3] The Treaty on the Functioning of the European Union , section III, art.26º; art.49º; art 52º, n1 and art 54º

Portugal and the UK are, in general, above the OECD average for all the sub topics studied within "Starting a Business". On the other hand, Spain and Italy are generally below the OECD average: for instance, the number of procedures required to start a business as well as the time needed in Spain are double of those in the OECD average. Furthermore, it costs entrepreneurs in Italy 4 times more in terms of per capita income (cost includes "all official fees and fees for legal or professional services if such services are required by law") to open a business than it costs to the average entrepreneur in the OECD. Finally, it is noteworthy that all these four economies fell in the "Starting a Business" ranking from last year (the UK registered the biggest fall, of 10 positions) [4] (**Exhibit 7**).

The same report also analysed the payment of taxes in each country (the "Paying Taxes" topic) in order to understand the amount of taxes that a "medium-size company must pay or suppress in a given year, as well as measures of the administrative burden in paying taxes". This topic covered the "number of payments an entrepreneur must make; the number of spent hours preparing, filing, and paying; and the percentage of their profits they must pay in taxes". Italy is the least tax-friendly country, out of these four countries: for example, the labour tax and contributions (as percentage of commercial income) is 43.4% when the OECD average is just 23.1%. The UK is in a better position when compared with the other three countries, as it is ranked 14th out of 138 economies (Italy is ranked 138th). In turn, Spain fares better than Portugal in this topic - they are ranked 67th and 81th respectively, although the former fell abruptly when compared with the previous year (down 34 positions) (**Exhibit 8**).

Finally, the corruption perception of public sector, developed by the Transparency International, is higher in Italy, where a score of 43 out of 100 was recorded in 2013, placing it at 69th out of 177 countries and territories. The UK is the best country among the four analysed, with a score of 76 and ranked 14th [5](**Exhibit 9**).

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[4] Doing Business – "Doing Business 2014 - Understanding Regulations for Small and Medium-Size Enterprises"- available at http://www.doingbusiness.org/data/exploreeconomies/italy#starting-a-business (Accessed 23 November 2013)

[5] Transparency International: Corruption Perceptions Index 2013 -available at http://www.transparency.org/cpi2013/results#myAnchor1 (accessed 4 December 2013). Note: The Corruption Perception Index scores 177 countries and territories on a scale between 0 (highly corrupt) and 100 (very clean).

1.4.2 Economic outlook

The economic and financial crisis that started in 2007 has strongly affected the European countries' economies, mainly the South European, and reduced households' disposable income. Therefore, the current economic outlook of each countries under analysis should strongly influence the location choice dilemma of Zaask.

1.4.2.1 Foreign investment

Despite the current crisis, the UK market is still attractive due to its strong perspectives of return and high internationalization projection when compared with the Spanish and Italian. In 2012, the UK was ranked 1st in the European's destination of direct investment, whereas Spain was ranked 5th, according to the AICEP's country reports. Moreover, Italy was the 4th European economy, in 2011[6]. The ambassador of the UK in Portugal, Alex Ellis, told in an interview to *OJE* newspaper that the UK is probably the most receptive European country to foreign investment. He believes that the above-mentioned factors aligned to the competitive market makes the UK an attractive place to invest[7].

To attract foreign investment, Spain has liberalized its foreign investment rules. Nowadays, foreign investors usually have to notify their investments only after they have been made (there are some exceptions but they are outside the scope of this case study).[8] Although in 2011 Spain was ranked 5th in the European's destination of direct investment, the foreign direct investment in Spain has been decreasing since 2008, in absolute terms.[9]

In Italy, foreign investment is usually favoured by the government; the only sector subject to special rules is the petroleum sector. Foreigner investors compete in equal

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6 "Espanha Ficha de Mercado, Abril 2013" – AICEP Portugall Global (pages 8 and 9); "Reino Unido Ficha de Mercado, Abril 2013" – AICEP Portugall Global (page 12); "Itália Ficha de Mercado, Agosto 2012" – AICEP Portugall Global (page 4).
7 British-Portuguese Chamber of Commerce - available at (http://www.bpcc.pt/SiteContent.asp?id=136) (Accessed 9 November 2013).
8 "Taxation and Investment in United Kingdom 2013 – reach, relevance and reliability" – Publication of Deloitte Touche Tohmastsu Limited (pages 2 and 3)
9 "Espanha Ficha de Mercado, Abril 2013" – AICEP Portugal Global (pages 8 and 9)

footing with local firms for business incentives (these incentives must fulfil the EU rules). The majority of Italian incentives are established for investments in new and existing production facilities, local development, research and development (R&D) and the revitalization of production areas.[10]

1.4.2.2 Competition

In Europe, Zaask only competes against specific websites of services providers (such as "*Fotógrafos de Portugal*") and other marketplaces of services providers. However, none of these represents a real direct competitor since they do not offer the same value proposal as Zaask, neither for *taskers* nor for *askers*. For instance, *taskers* need to pay to appear on the search list or even to appear on the top search results, such as in the Portuguese "*Páginas Amarelas*". Moreover, other online marketplaces of services providers in Europe do not focus on professional services providers (**Exhibit 10**).

1.4.2.3 Most problematic factors for doing business

The World Economic Report 2013-2014[11] of the World Economic Forum (WEF) discusses the most problematic factors, out of 16 pre-defined factors, for doing business in a specific country based on an international survey to Executive in the world. In the UK, 20.7% of Executives that answered to the WEF's Executive Opinion survey stated that access to financing is the most challenging factor for doing business in the country. Furthermore, survey's participants elected the tax rate and an inefficient government bureaucracy as the second and third most problematic factors for people that want to invest in the UK. Executives in Spain and Italy have similar opinions as the UK's about the most problematic issues about doing business in their countries. However, the Spanish and Italian restrictive labour regulations are referred to as more problematic for Executives of each country rather than tax regulation (**Exhibit 11, 12 and 13**).

[10] "Taxation and Investment in Italy 2012 – reach, relevance and reliability" – Publication of Deloitte Touche Tohmastsu Limited (page 2)
[11] World Economic Report, 2013-2014 - The World Economic Forum's Executive Opinion Survey captured the insight of more than 13,000 executives, across 148 countries, into critical drivers of their respective countries' development.

1.4.2.4 Purchasing power

In 2012, GDP per capita in the UK (measured in current US dollars in Purchasing Power Parity – PPP – to adjust for differences in price levels and nominal exchange rates) was US$ 36,569.4 PPP, above Spain's US$ 30,569.4 PPP and Italy's US$ 29,811.8. Portuguese GDP per capita was significantly below, at US$ 22,930.1 PPP. GDP per capita, although not perfect, is a good proxy for households' disposable income (**Exhibit14**).

Furthermore, Zaask began its activity in an unfavourable economic context. Indeed, following the European sovereign debt crisis, last year GDP per capita contracted 1.1% in Portugal and 0.98% in Italy and was flat in Spain, whereas it grew by 1.1% in the UK. GDP per capita is expected to grow 2.0% in the UK and 0.2% in Spain in 2013, but nonetheless it should remain drop further in Portugal (-0.5%) and in Italy (-0.7%). 2014's prospects are more positive, according to the International Monetary Funds' projections (**Exhibit15**).

1.4.3 Cultural habits

One of the reasons that helped Zaask's managers to reduce the foreign market options to three countries was the geographical proximity to Portugal. However, it is still important to analyse the lifestyles of each country, mainly the usage of internet and other new information and communication technologies that can significantly influence the operating revenues of Zaask.

World e-commerce has been increasing, hitting a total market value of € 886 billion in 2012. Europe surpassed the US and is the leader in e-commerce, with a market share of 35.1%, equivalent to € 311.6 billion (**Exhibit 16**). Within Europe, the Western Region registered a higher e-commerce market value, of € 160.80 billion, while the Southern Region, being the third more valuable, recorded only € 33.20 billion in online trade in 2012 (**Exhibit 17**)[12].

[12] E-commerce European Press Release - 05-23-2013, available at http://www.ecommerce-europe.eu/press/2013/05/press-release-european-e-commerce-to-reach-312-billion-in-2012-19-growth (Accessed at 4 December 2013). **Note:** These values include online purchase of products and services.

The UK records the biggest percentage of people (among those aged between 16 and 74 years who have had access to the internet) who has already purchased online: 78% of the UK residents bought at least one product/services through the internet in 2011. The other two countries, Spain and Italy, registered lower percentages of online purchase, of 28% and 10% respectively (**Exhibit 18**)[13]. As shown in **Exhibit 18**, the South European countries register the lower percentages of people who bought through the internet in 2011, which can be explained to some extent by the lower percentage of households with broad connections (**Exhibit 19**).

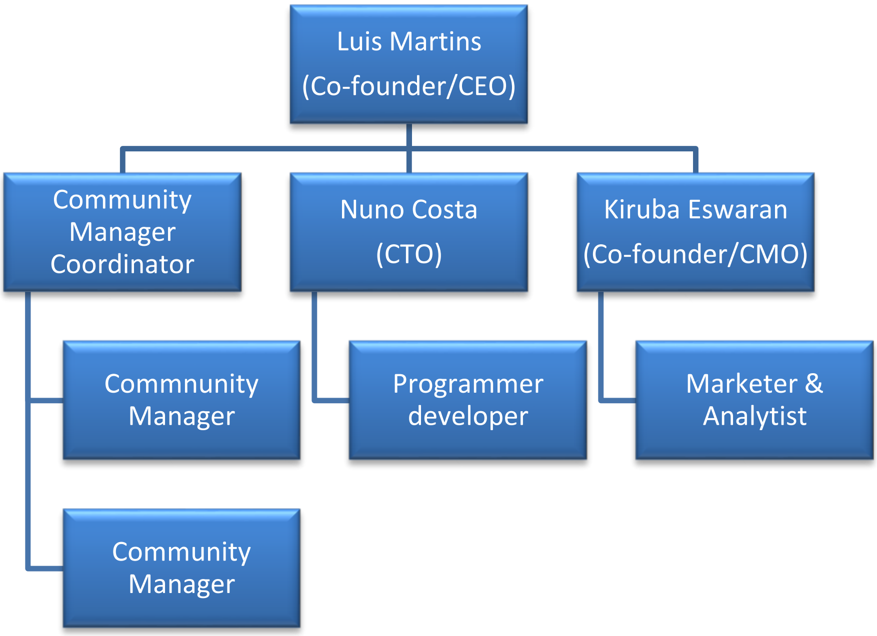
In 2011, the use of mobile internet was relatively high in the UK and in Spain – which registered 23% and 12% respectively - when compared with Portugal and Italy. The percentage of people that used mobile internet in Portugal and Italy was below the average of the twelve countries analysed by the Cetelem[14] (**Exhibit 20**). Despite the lower use of mobile internet, Italy registered, in 2011, the higher percentage of people that use mobile internet to buy services or products (27%). In all these four countries, the tendency to purchasing online through mobile internet has been increasing exponentially. For instance, Cetelem estimates that the number of people who use smartphones or tablet to buy products or service will increase by 42% in Spain in the next few years. (**Exhibit 21**).[15]

Besides the interesting numbers of people that buy products/services online, there are still some reasons that prevent a greater increase in online purchases. According to Cetelem's survey, the main reason is that people need to feel that the product/service is real or in other words, people need to "touch" the product or have references about the good / service provided before buying/hiring it. In addition, it is also important to note that the product/service quality often cannot be perceived when purchasing online and that people still have some restrictions about online payments (**Exhibit 22**).

[13] Eurostat regional yearbook 2013 – Chapter 8: Information Society.
[14] The *Observatoire Cetelem* is a privately-owned centre for consumer studies.
[15] Data from a survey developed in 12 countries by Cetelem, in 2012. The data is a result of more than 6500 answers, at least 500 answers per country.

Exhibits

Exhibit 1: Organizational structure of the company



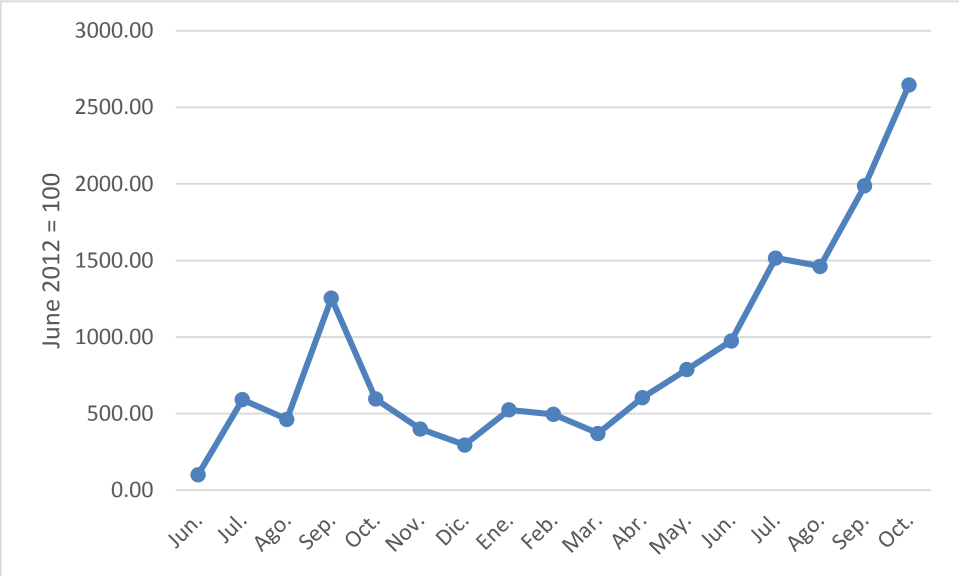
Source: Zaask, 2013

Exhibit 2: Zaask's commission table

Task value (€)	Zaask's Comission *	Notes
0 - 999	10%	
1000 - 4999	7.5%	Negotiable with Zaask
>**5000**	5%	Negotiable with Zaask

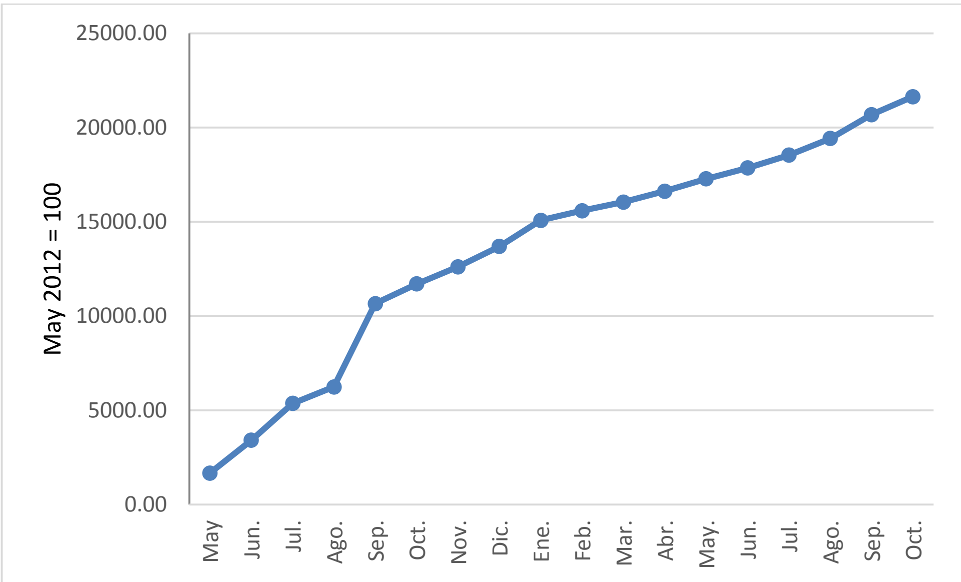
Source: Zaask, 2013. Available at https://www.zaask.pt/termos.(Accessed 15 November 2013**)**

Exhibit 3: Number of tasks posted per month relatively to first month (June 2012 to October 2013), flow



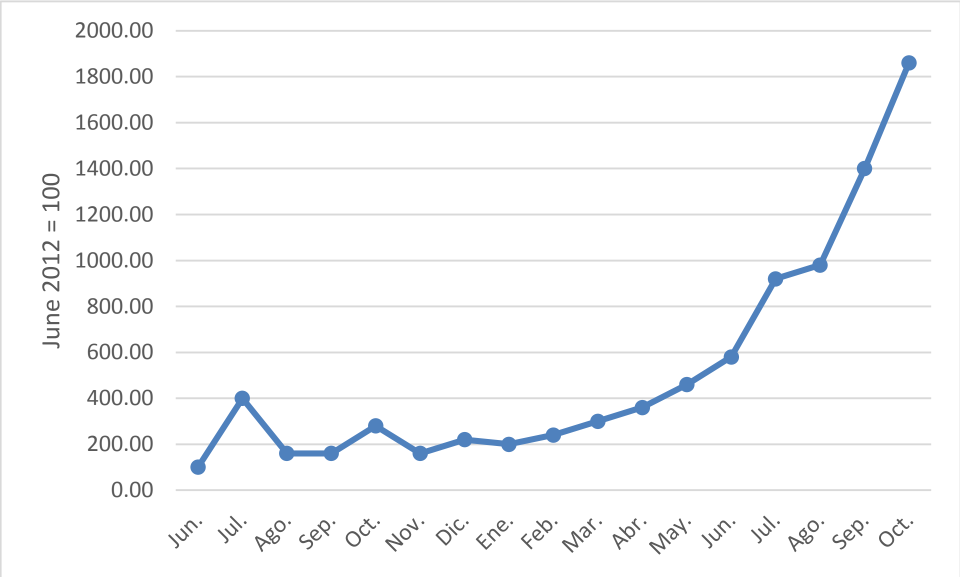
Source: Zaask, November 2013.

Exhibit 4: Number of users registered on Zaask's platform (May 2012 – October 2013), stock



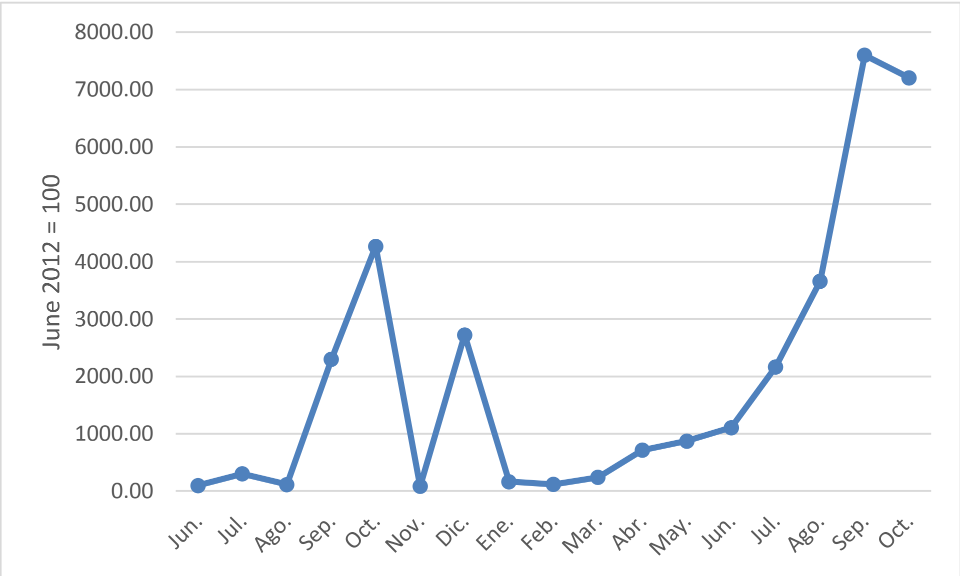
Source: Zaask, November 2013.

Exhibit 5: Number of transactions per month through Zaask's platform relatively to the first month (June 2012 – October 2013), flow



Source: Zaask, November 2013.

Exhibit 6: Value of transactions per month through Zaask's platform relatively to the first month (June 2012 – October 2013), flow



Source: Zaask, November 2013.

Exhibit 7: Values of indicators considered in "Starting a Business"

	Portugal	Italy	Spain	UK	OECD
Procedure (number)	3	6	10	6	5
Time (days)	2.5	6	23	12	11.1
Cost (% of income per capita)	2.4	14.2	4.7	0.3	3.6
Paid-in Min. Capital (% of income per capita)	0	9.8	13.4	0	10.4

Source: Doing Business 2014 - Understanding Regulations for Small and Medium-Size Enterprises

Exhibit 8: Values of indicators considered in "Paying Taxes"

	Portugal	Spain	Italy	UK	OECD
Payments (number per year)	8	8	15	8	12
Time (hours per year)	275	167	269	110	175
Profit tax (%)	15.1	21.2	20.3	21.6	16.1
Labor tax and contributions (%)	26.7	36.8	43.4	10.6	23.1
Other taxes (%)	0.5	0.6	2	1.7	2
Total tax rates (% profit)	42.3	58.6	65.8	34	41.3

Source: Doing Business 2014 - Understanding Regulations for Small and Medium-Size Enterprises

Exhibit 9: Corruptions perception of public sector, 2013

	Score (2012)	Score (2013)	Rank (in 177 countries)
Portugal	63	62	33
United Kingdom	74	76	14
Spain	65	59	40
Italy	42	43	69

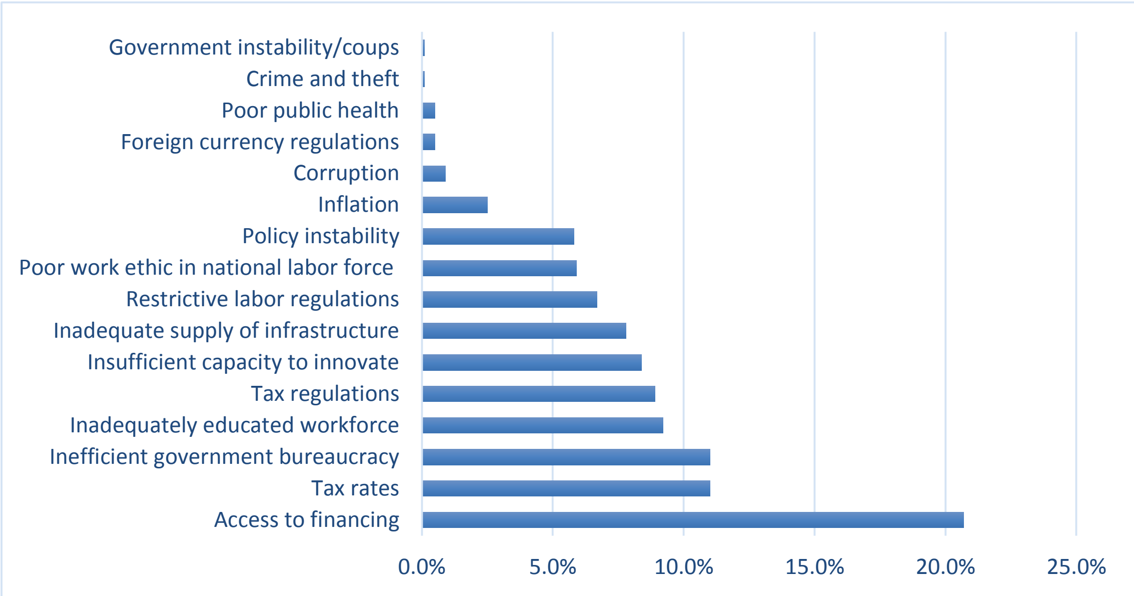
Source: Transparency International: Corruption Perceptions Index 2013 -available at http://www.transparency.org/cpi2013/results#myAnchor1 (accessed 4 December 2013)
Note: The Corruption Perception Index scores 177 countries and territories on a scale between 0 (highly corrupt) and 100 (very clean).

Exhibit 10: Segmentation of Online Services Market

Virtual job	Local job	
Examples of companies		
Focused in virtual jobs (no focus in local communities)	**Leaders in local services providers (still focused in US)**	**Zaask leads the race in Europe since it is focusing on Professionals**
Elance	Taskrabbit	Zaask
Odesk	Thumbtack	Gigalocal
Mechanical Turk	Zaarly	Etece
Freelancer	Readbeacon	Taskhub

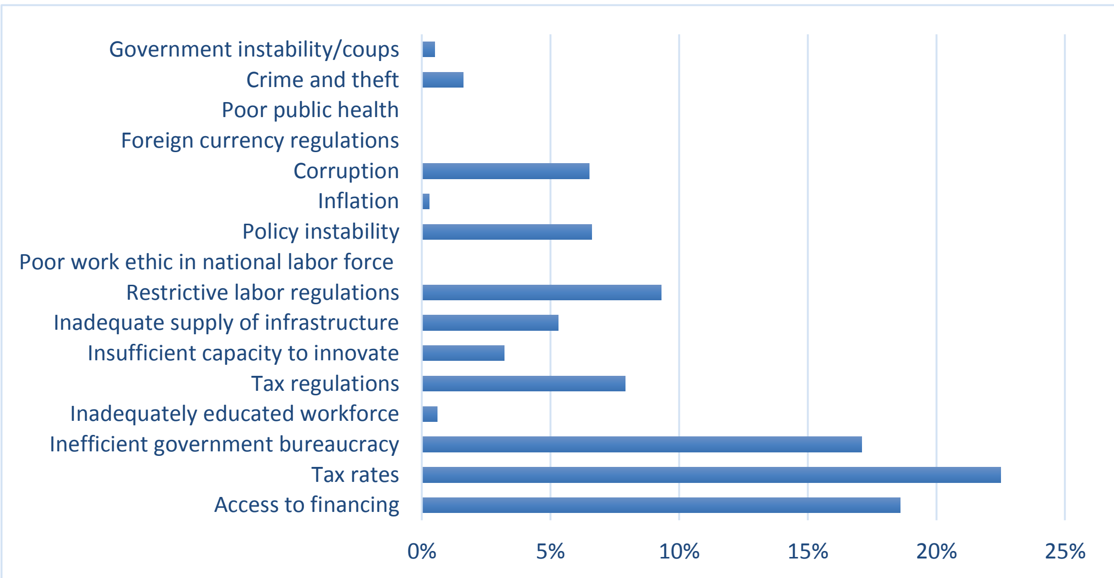
Source: Zaask, 2013

Exhibit 11: The most problematic factors for doing business in the UK during the year 2014



Source: The Global Competitiveness Report 2013-2014 (Full edition)
Note: Executives of the UK were asked to select the five most problematic, from the list of factors above, for doing business in their country and to rank them between 1 and 5 (less problematic). The bars in the exhibit show the responses weighted according to their rankings.

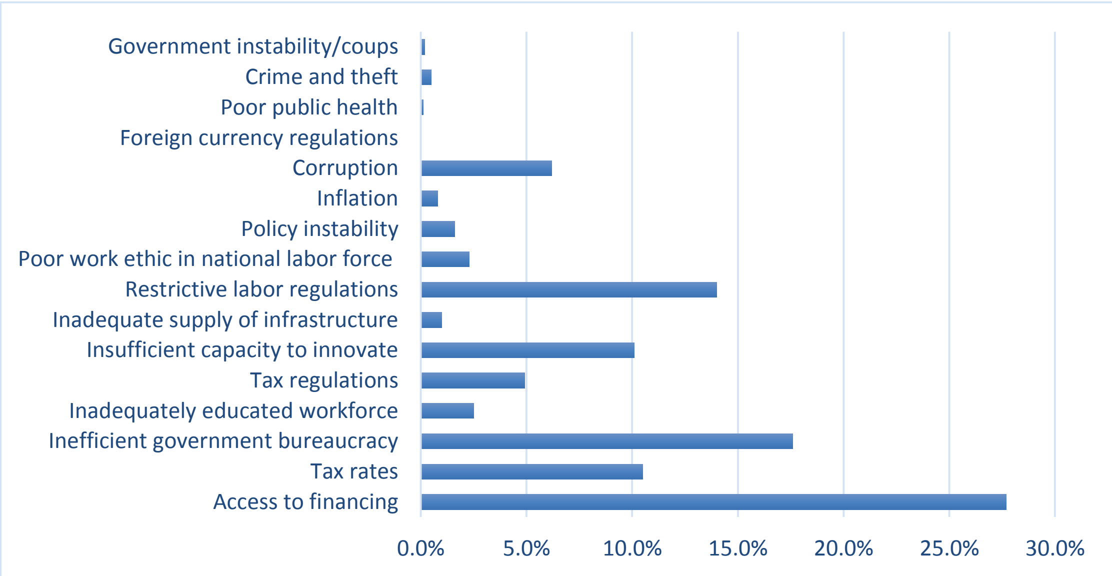
Exhibit 12: The most problematic factors for doing business in Italy during the year 2014



Source: The Global Competitiveness Report 2013-2014 (Full edition)

Note: Executives of Italy were asked to select the five most problematic, from the list of factors above, for doing business in their country and to rank them between 1 and 5 (less problematic). The bars in the exhibit show the responses weighted according to their rankings.

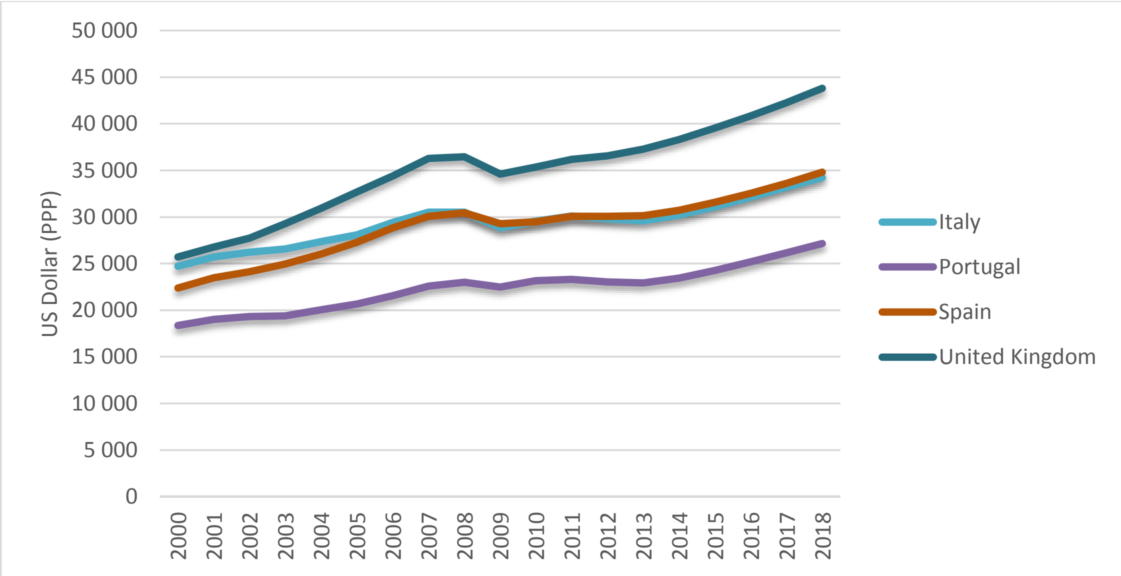
Exhibit 13: The most problematic factors for doing business in Spain during the year 2014



Source: The Global Competitiveness Report 2013-2014 (Full edition)

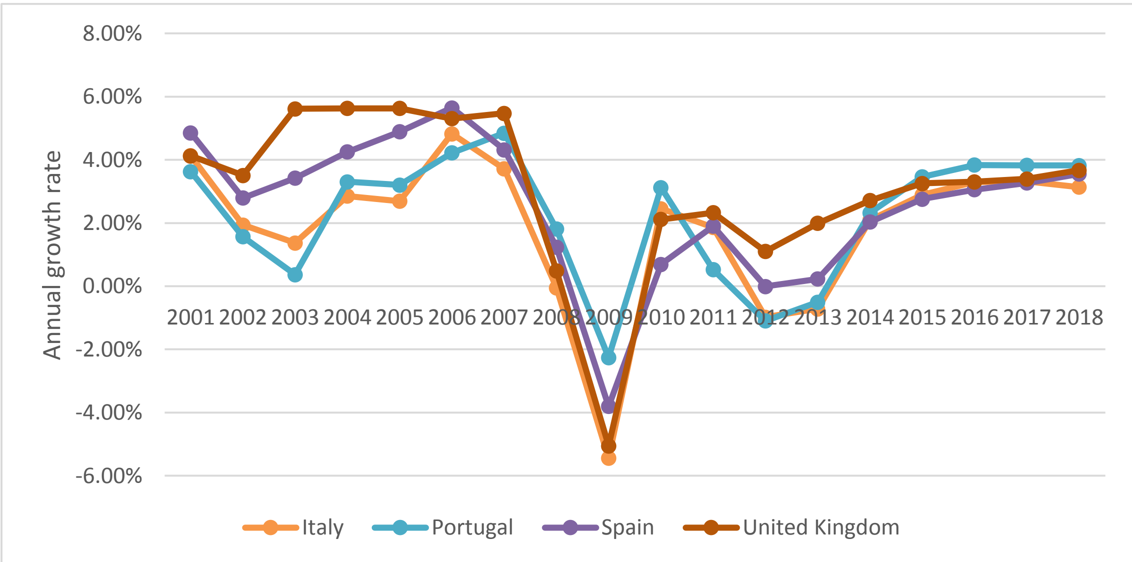
Note: Executives of Spain were asked to select the five most problematic, from the list of factors above, for doing business in their country and to rank them between 1 and 5 (less problematic). The bars in the exhibit show the responses weighted according to their rankings.

<u>Exhibit 14: Gross domestic product based on purchasing-power-parity per capita, 2000 -2018</u>



Source: International Monetary Fund, World Economic Outlook Database, October 2013

<u>Exhibit 15: Annual growth rate of gross domestic product based on purchasing-power-parity per capita, 2000 -2018</u>



Source: International Monetary Fund, World Economic Outlook Database, October 2013

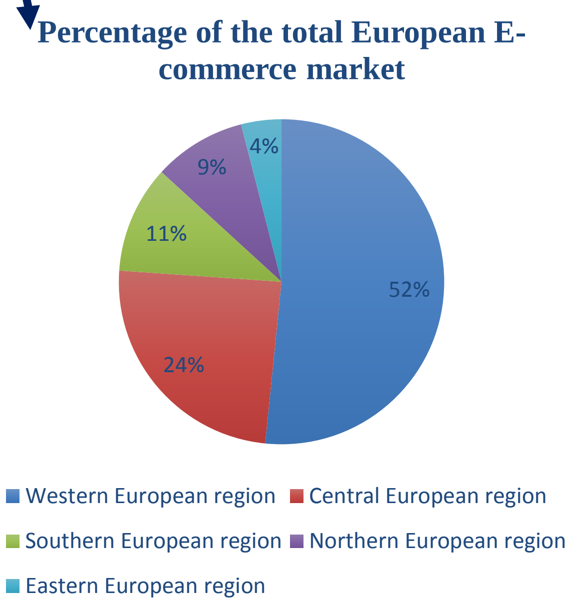
Exhibit 16: E-commerce market values, 2012

	B2C e-commerce turnover, 2012	Percentage of Total
Europe	€ 311.6 billion	35,1%
North America	€ 294.2 billion	33,1%
Asia-Pacific	€ 227.8 billion	25,6%
Latin America	€ 42.1 billion	4,7%
Middle East and North Africa	€ 10.8 billion	1,2%

Source: E-commerce European Press Release - available at http://www.ecommerce-europe.eu/press/2013/05/press-release-european-e-commerce-to-reach-312-billion-in-2012-19-growth (Accessed at 4 December 2013)
Note: These values include online purchase of products and services.

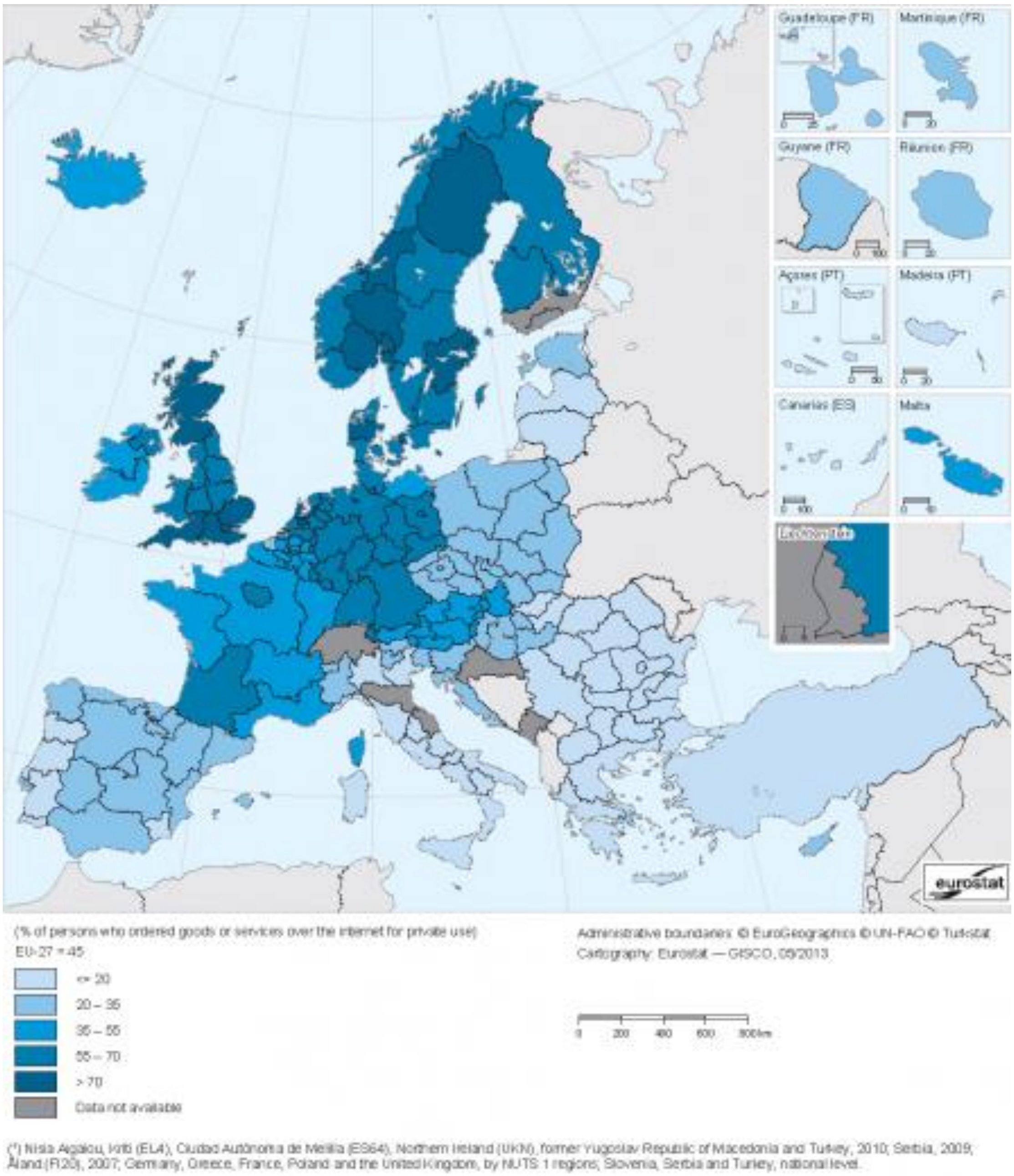
Exhibit 17: European e-commerce market values, 2012

	Market value in billion
Western European	€ 160,80
Central European	€ 76,30
Southern European	€ 33,20
Northern European	€ 28,70
Eastern European	€ 12,60



Source: E-commerce European Press Release - available at http://www.ecommerce-europe.eu/press/2013/05/press-release-european-e-commerce-to-reach-312-billion-in-2012-19-growth (Accessed at 4 December 2013)
Note: These values include online purchase of products and services.

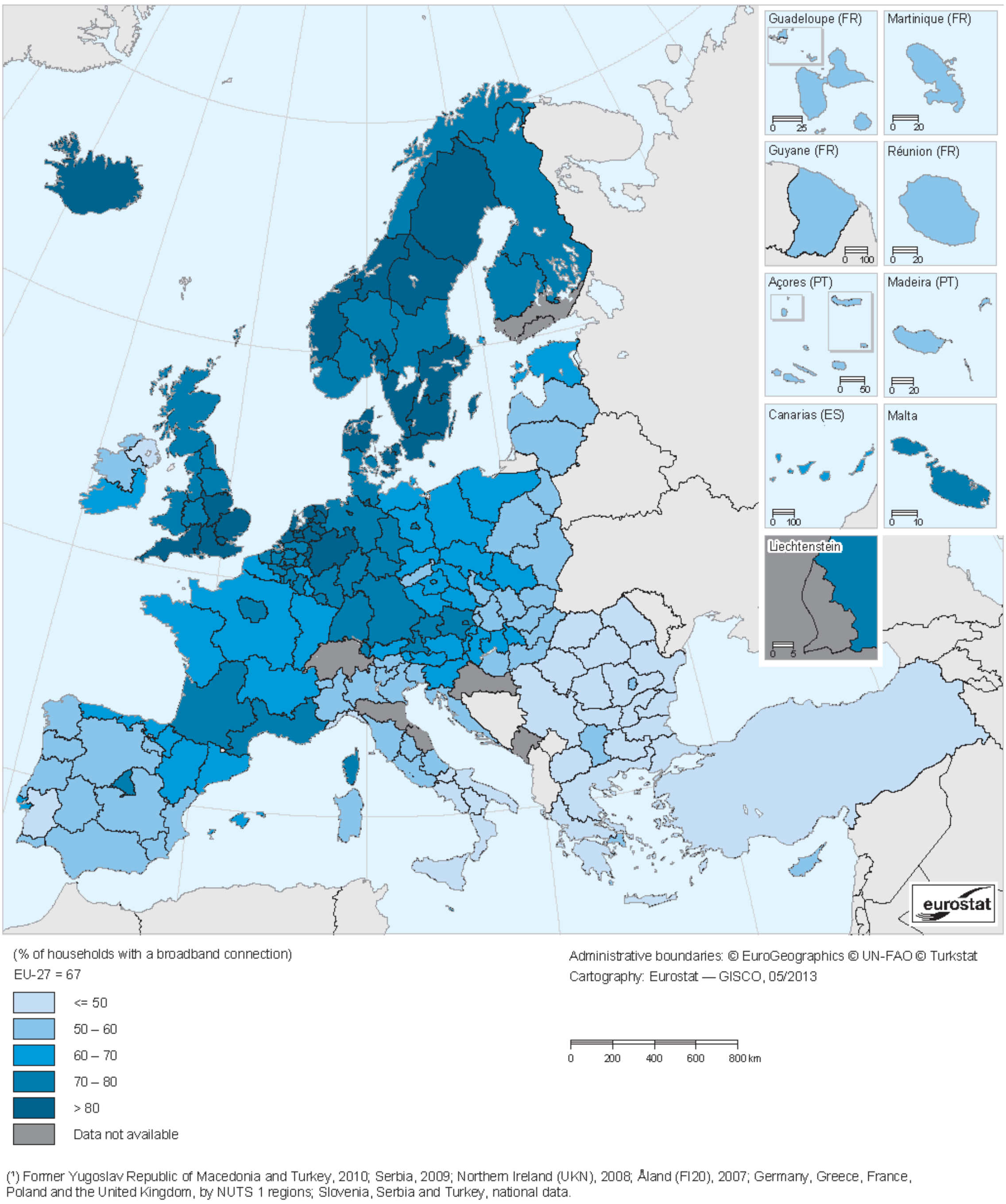
Exhibit 18: Online Purchase, by NUTS 2 regions, 2011(1) - % of people who ordered goods or services over the internet for private use



Source: EUROSTAT, online database.

Note: The survey only considered people between 16 and 74 years.

Exhibit 19: Broad connections in households, by NUTS 2 regions, 2011 - % of households with a broadband connection.



Source: EUROSTAT, online database.

Note: The survey only considered households with at least one member between 16 and 74 years.

Exhibit 20: Use of mobile internet (in % of population), 2011.

Country	
Portugal	**5%**
Spain	**12%**
UK	**23%**
Italy	**7%**
Denmark	9%
Belgium	4%
France	16%
Hungary	4%
Poland	4%
Czech Republic	4%
SK	5%
Romania	1%
Average	**8%**

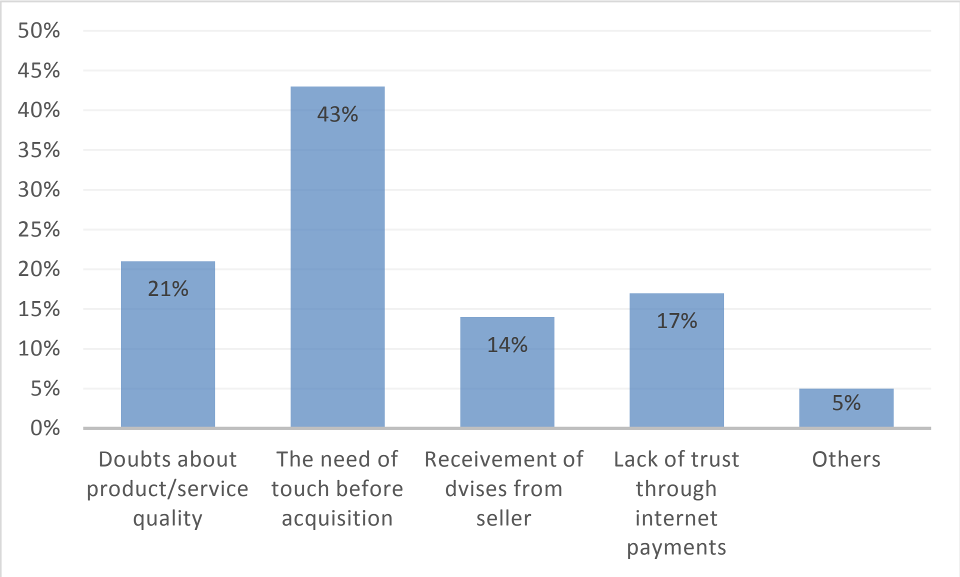
Source: O Observador Cetelem 2013

Exhibit 21: Percentage of people that bought products/services through a smartphone or tablet, 2011.

Country	Current values	Future values	Growth rate
Portugal	12%	35%	66%
Spain	21%	36%	42%
UK	22%	32%	31%
Italy	27%	44%	39%

Source: O Observador Cetelem 2013

Exhibit 22: Reasons why people will not buy through internet (average of 12 countries), 2011.



Source: O Observador Cetelem 2013

II. Teaching Notes

2.1 Introduction

The Zaask case study was written with the intent of providing an insight about a Portuguese technology-based company that is facing an international strategy issue – the foreign market choice.

All analysis and interpretations made by the author in this section only reflect her own application of the information disclosed in the case through the use of some strategic concepts and analytical frameworks developed by other authors.

Finally, Teaching Notes should only be used by instructors. This section was developed to provide a guide plan about Zaask case study and to give suggestions and recommendations of the use of the case for class discussions.

2.2 Synopsis

Zaask is a technology-based start-up that was created in May, 2012 by two entrepreneurs. The goal of these two entrepreneurs was to facilitate the matching between supply and demand of local service providers.

The company has been steadily increasing, in terms of monthly tasks posted, monthly transaction values and number of users. It has even been considered a successful case of entrepreneurship by the Portuguese media.

Currently, Zaask is only operating in Portugal. However, a short-term objective of Zaask's managers is to internationalize the company. Their biggest issue is to choose the best market(s) to start its internationalization process; Zaask's managers already reduced the location choice analysis down to three countries: the United Kingdom, Spain and Italy based on three criteria (i) geographical proximity, (ii) market knowledge and (iii) market size. Therefore, the *where to* is currently the biggest issue of the company.

2.3 Suggested Assignment Questions

The suggested assignment questions for Zaask's case study could be divided in two parts; the first should be addressed to introduction courses of strategic management while the second should be used for intermediate/advance strategic management courses.

The case study should provide a subject for discussion about strategic management, particularly about international strategy. Hence, students should read the case and be prepared to discuss the following questions:

PART I: Introduction to strategic management

1. How do you describe the strategic thinking of Zaask's founders?
2. What are the mission and value proposals of Zaask?
3. How do you characterize the level of attractiveness of e-commerce industry? **Hint:** Define the overall online service market life cycle and assess the level of attractiveness of the e-commerce industry.
4. What are the strengths and core competences of Zaask? **Hint:** Apply the Critical Success Factors framework to the analysis (Key Buying Factors, Competition Engines and Critical Success Factors) and the Core Competences framework.
5. What are the opportunities and threats of Zaask? **Hint**: Perform a SWOT analysis.

PART II: Intermediate/Advanced strategic management

6. The Zaask's managers reduced their foreign market analysis down to three: Italy, Spain and the UK. How would you define the cultural, administrative, geographic and economic aspects from a proximity point of view? **Hint:** Follow the CAGE model.
7. What would be your recommendations to the Zaask's growth strategy in the future? (1) where should Zaask start its internationalization process; (2) should

the company starts its internationalization process in one or more countries at the same time. (3) which extra variables should Zaask's managers take into account and (4) is the Zaask's business model sustainable in the medium/long-term? Justify. **Hint:** Study the pros and cons of your decision.

2.4 Teaching Objectives

Zaask's case study was prepared based on the following teaching objectives:

1. To demonstrate the motivation and attitudes needed today to achieve a successful internationalization strategy and to allow students to develop their skills in order to support their going-abroad decision, the recognition of market potential and the existence of resources and capabilities.

2. For students to understand the complexity behind the decision of internationalization strategy, mainly the difficulties in choosing the foreign market, both generic and specific for technology-based companies. It should also help students to make their own assessment and set up recommendations supported by a thorough analysis of the data.

3. To push students to use strategic frameworks to support their case analysis, as well as to stimulate an effective use of their previous knowledge. Students should also be encouraged to back-up their analysis with quantitative and qualitative interpretations of the data

4. To show the importance of the local knowledge in strategic planning, in particular, to show the importance of cultural habits in the online industry.

5. To help students develop a comprehensive capability to recognise the main competitive advantages of a market in terms of political, economic and social variables.

2.5 Use of the Case

The case was written based on a real example of a Portuguese technology-based company that is facing an internationalization process. Hence, this case will encourage students to explore some strategic concepts and frameworks based on real facts. This case also intends to help students understand the first steps of a firm's internationalization process by addressing the three critical issues of the decision – *Why?*, *How?* and *Where?* –, focused mainly on the location choice.

The topics covered herein are also adequate to be used in introductory strategic and advanced strategic courses. This dissertation covers a vast array of strategic models and theory that can help students throughout their learning curve.

2.6 Relevant Theory

This study addresses the subject of internationalization of technology-based companies, specifically the foreign market choice. Therefore, several theoretical frameworks and models were used on its development and on the respective Teaching Notes. The most important topics are detailed below as well as a suggested list of reading materials recommended to guarantee a profound understanding of the different topics covered. Of course, the reading materials shown here are only part of the author's suggestion and do not try to cover the full literature available on the subject. Students can easily find information about the tools used here in almost all strategic books.

1. Foreign market choices

The internationalization of technology-based start-ups (TBSUs) has been subject to the interest of academic researchers (see, for example, McDougall & Oviatt, 1994; Zahra, 2005) as these firms do not follow the "traditional" internalization process that is described in the internationalization stage theory (Johanson & Vahlne, 1977, 1990).

The rapid internationalization of TBSUs means that these companies need to quickly address some international strategies issues (Oviatt & McDougall, 1995). These firms frequently tend to go global without having good market knowledge and advantages of size. Within this framework, one of the first international strategies that a TBSUs needs to address is the location choice (Coeurderoy & Murray; 2008). According to Coeurderoy and Murray (2008), this strategic issue has been largely unexplored by academic researchers, which can be surprising given the high impact that location choice decisions can have on subsequent companies' failure or success.

Davidson (1980) argued that inexperienced firms will prefer to start its internationalization in countries that are closer, both geographically and culturally, to their home markets. However, some recent theoretical studies have seriously questioned the relevance of geographical proximity for TBSUs (Oviatt & McDougall, 2005; Zahra, 2005).

2. Industry life-cycle and industry attractiveness

The industry life-cycle framework (Raymond Vernon; 1966) constitutes an attempt to determine the phase of lifetime in which a product/industry present is at a specific moment. The life-cycle framework is divided in four development stages: introduction, growth, maturity, decline and one pre-stage, market development. Generally, all industries/products pass through all these stages. The use of this framework is necessary to understand in which phase the company's competitors are in compared with it. It is also an essential tool to help set up the company's strategy in all different stages of its life-cycle.

- Levitt, T., 1965. Exploit the Product Life Cycle. *Harvard Business Review*, Volume 43, pp. 81 - 94.

3. Critical Success Factors framework

Critical success factors (CSF) represent industry-variables not exclusive of specific companies. This framework has been developed from the concept of "success factors" (Daniel 1961) into CSF (Rockart 1979; 1981). The understanding of CSF is critical to organizations by giving them knowledge of the most valuable factors within their industry. Firstly, to determine CSF, companies need to understand what customers' value within the industry (Key Buying Factors). Based on these results, industry players will compete in the market to meet their clients' demands (Competition Factors). Only after analyzing reasons behind clients' buying decisions and the tools used by companies to create more value to clients than its competitors, the critical success factors of an industry can be defined.

- Freire, A., 1997. In: *Estratégia - Sucesso em Portugal.* 1st ed. s.l.:Verbo, pp. 98-99.

4. SWOT analysis

The SWOT analysis summarises the key issues of business environment. It also tries to summarize the strategic capabilities of firms that give them competitive advantages over their competitors. In other words, this strategic tool analyses strengths and weaknesses of a firms (internal analysis) as well as its opportunities and threats (environmental analysis).

- Johnson, G., Scholes, K. & Whittington, R., 2008. *Exploring Corporate Strategy.* 8th ed. s.l.:Prentice Hall, pp. 118 – 120.
- Freire, A., 1997. In: *Estratégia - Sucesso em Portugal.* 1st ed. s.l.:Verbo, pp. 143 - 144.

5. CAGE model

The CAGE model (Ghemawat; 2001) is a framework to analyz1e countries and define their relevance to the location choice dilemma of firms. Ghemawat developed this framework to explain that "distance matters" in foreign market decisions, which means that the attractiveness of each individual country is not enough to determine the decision. This framework is divided in four areas: (i) cultural distance, (ii), administrative and political distance, (iii) geographical distance and (iv) economic distance.

- Johnson, G., Scholes, K. & Whittington, R., 2008. *Exploring Corporate Strategy.* 8th ed. s.l.:Prentice Hall, pp. 307 – 308.
- Ghemawat, P., 2001. Distance Still Matters. *Harvard Business Review,* September.pp. 137 - 147.

2.7 Analysis & Discussion

The analysis and discussion of the case can be divided in two different sections. Each section corresponds to the suggested assignment questions in 2.3.

The case analysis is structured to be lectured in at least 100 minute-time classes divided over the questions of the first part and 80 minute-time lectures for the second part. Time should be differently distributed among questions based on their theoretical relevance.

The Professor should ask students to prepare the case before the class discussion. However, asking for a report about the subjects covered at end of the case is also a good option.

PART I: Introduction to strategic management (100 minutes)

Question #1: ***How do you describe the strategic thinking of Zaask's founders?*** (10 minutes)

Understanding the type of thinking of the company's founders should be a starting point for the full perception of the business. The relationship between types of thought (systematic or intuitive) and attitudes towards risk (exploring or conservative) should then be carefully examined.

Both Zaask's founders, Luís Martins and Kiruba Eswaran, saw a business opportunity on their own personal experiences in their community. However, while Luís Martins is more intuitive and risk-taker, adopting an exploring attitude when confronted with uncertainty, Kiruba is more conservative and risk-averse.

This contrast between strategic thinking inside the company can be an advantage. The founders' thinking is adequate with their job, as, on the one hand, the CMO should be more analytic and conservative, while the CEO should adopt an exploring an innovating stance to expand business to other areas and to other functions. The interaction between the two views can also cool down extreme positions on both sides. This equilibrium has been fruitful, enabling fast and structured growth.

Figure 1: Strategic thinking of Zaask's founders

		Type of thought	
		Systematic	**Intuitive**
Attitude towards risk	**Exploring**	**Planner**	**Entrepreneur**
	Conservative	**Bureaucratic**	**Reactive**

Kiruba Eswaran Luís Martins

Source: Author's analysis

Question #2: ***What are the mission and value proposals of Zaask?*** (10 minutes)

The strategy formulation process of a company starts with the designation of its vision and mission because they represent a solid basis for generating objectives. Therefore, a good understanding of the company's strategic bases is crucial.

Zaask was created with the aim to facilitate the match between the demand and supply of local services. At the same time, Zaask's founders decided to offer more than a simple database of services providers in order to add more value to *askers* and *taskers*. Thus, the company helps the latter to create for free an online profile and enables the creation of an online reputation (since *taskers* receive a performance evaluation at the end of each service) and the free promotion of their services, at the same time guaranteeing security in payments. On the other hand, the online platform gives clients access to multiple quotes at the same place, the contact with reviews from previous tasks and guarantees money refunds if final services do not correspond to expectations.

Figure 2: Mission and value proposals

Mission: Develop and promote the best of the Service providers and to be able to effectively match the clients' demands with them.

Value Proposal

Asker	Tasker
1) Possibility to: • get multiple quotes at the same place; • read taskers'reviews of previous askers; **2) Security payment system**	**1) Possibility to:** • create an online profile; • develop an online reputation; • advertise his/hers services **2) Guarantee of payments;**

Source: Zaask, 2013

Question #3: ***How do you characterize the level of attractiveness of e-commerce industry?*** **Hint:** Define the overall online service market life cycle and assess the level of attractiveness of the e-commerce industry. (30 minutes)

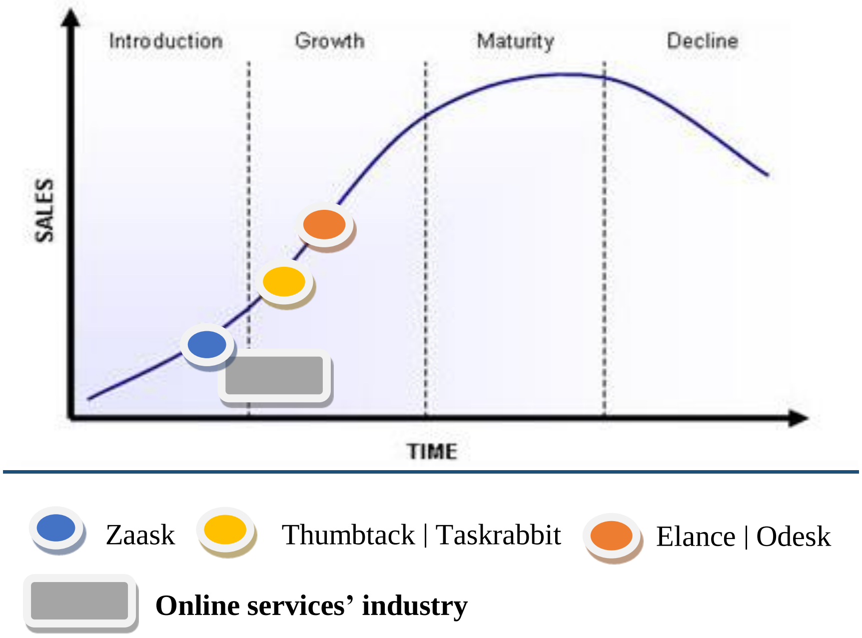
To answer this question, students should understand that Zaask belongs to online services market that includes companies that provide virtual and local services (**Exhibit 10**). There is no data about online services transactions in official databases. Therefore, the professor should use data of e-commerce (which includes both trade of goods and services) to analyse the industry attractiveness based on the assumption that online services will follow the same trend as e-commerce.

The advanced stage of development of the US online services' market is in part justified by the presence of well-established and successful online companies, such as Thumbtack and Taskrabbit for local services and Elance and Odesk for virtual job. The US companies of online services are, in general, in the growth stage and rivalry has been growing as a consequence of the increasing demand. At the same time, the business risk of these companies has been decreasing.

Even at this stage, firms need substantial capital to fund marketing-oriented spending in order to create strong brand awareness. In addition, companies also need high amount of investment to increase their physical capital (land, warehouses, machinery, etc.) and be able to answer to market demands.

While virtual jobs' companies are also well established in Europe, companies of local jobs are yet in the introduction phase. As they represent a new concept, profitability is uncertain due to unproven and unknown success and business risk is high. These companies are focused in specific groups of customers, "innovators" and "early adopters" - people that buy through internet. Moreover, since the number of competitors in the introduction stage are few or inexistent, Zaask can find here a good opportunity to expand to other European countries and create its own customers' base and develop brand awareness (**Exhibit 10 and Figure 3**).

Figure 3: Industry life cycle of the online services' industry



Source: Author's analysis

Besides the analysis to the industry/product life-cycle, industry attractiveness should also be studied. To understand the level of industry attractiveness, the value of the industry should be compared with the risk associated with that business based on the number of competitors their strength, margins and industry growth.

Due to the absence of data on online services' transactions from credible sources, data on e-commerce can be analysed, assuming trends are roughly similar. Students should be asked to analyse the attractiveness of the e-commerce industry and resume their conclusions in a table similar to the one presented in **Table 1**. In that table, students should attribute scores to each of the value, growth, margin, risk and attractiveness metrics.

The analysis of a Porter's five forces should be helpful to understand industry attractiveness. However, in order to perform Porter's five forces analysis, students will need to search for more information about the e-commerce industry, mainly about barriers to entry and about the number of companies inside the industry.

Threats of entrance by new enterprises: High

Barriers to entry in the e-commerce industry are low since entry costs are not relatively expensive, mainly because physical and R&D costs are insignificant when compared with those required by other industries. Moreover, growing returns in the industry and a favourable outlook make e-commerce business very attractive.

Bargaining power of buyers: High

The bargaining power of buyers in this industry is high since rivalry is high, whereby they (buyers) can easily find other supplier inside the industry (of e-commerce). This is also consequence of the lack of loyalty to the brand: generally, customers search for cheap and high-quality products without looking for a particular brand.

Bargaining power of suppliers: Low

There are many players for the same products/services, which means the suppliers' power is low. However, there are companies, like Microsoft, that due to their position in the software product market have strong bargaining power as suppliers.

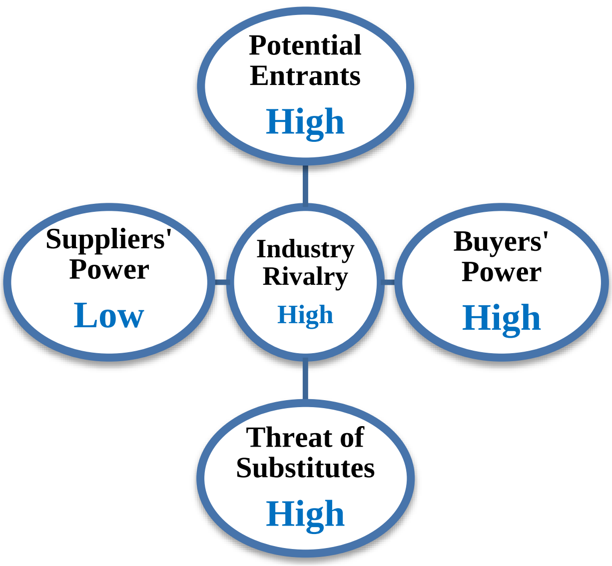
<u>Threats of substitute products or services:</u> High

The sale of products/services through the internet is relatively easy, which means that there will always be threats of substitute products or services in the e-commerce industry. Moreover, the same product/service can be obtained through the internet or through the traditional retailing stores. For example, if buyers find that the price of a DVD or book at Amazon is not attractive, they can easily search online for other suppliers, as in the case of service providers.

<u>Rivalry among Existing Firms:</u> High

Rivalry inside this industry is high, which is a consequence of a fast growing market. Furthermore, the presence of many firms selling similar products/services also increases rivalry.

<u>Figure 4: Porter's five forces – E-commerce industry</u>



Source: Author's analysis

In 2012, the overall e-commerce market value grew 19% (when compared to the previous year) and amounted to €311.6 billion in Europe (**Exhibit 16**). Within this region, the Western countries registered the higher business-to-consumer (B2C) e-commerce turnover, mainly due the contribution of the UK and France. Globally, e-commerce in Western Europe represented 51.6% of the total European e-commerce market (with an absolute value of €160.8 billion), while economies in the South (the third largest region in terms of e-commerce within Europe) represented 10.7% of the total European e-commerce in 2012, with a € 33.2 billion turnover (**Exhibit 17**).

According to Wijnand Jongen, vice-president of Ecommerce Europe (the association of European companies selling products or services online), the rapid growth of e-commerce in Europe is a result of the growing use of internet and mobile devices. According to Jonge, "*The Scandinavian countries, the Netherlands and the United Kingdom in particular have a head start as far as Internet usage and mobile devices is concerned. These mature countries are scoring very high for both e-commerce and m-commerce (sales via smart phones and tablets). In these countries 70 to 80 per cent of Internet users are e-shoppers. Internet penetration is 90% or higher. (…).*"

Despite lower online purchases' value in the other European countries, their online market is growing quickly. For instance, the Ecommerce Europe association expects that e-commerce in European B2C (business-to-consumer) countries will double until 2016 to €625 billion as confidence increases and more shoppers establish their online business.

Moreover, the faster growth of online purchase in the next years will largely be influenced by the rapid and outstanding penetration of mobile commerce. For instance, in 2011, the use of mobile internet was high in the UK and in Spain relative to the average European country (8%), where the percentage of people that used mobile internet was 23% and 12% respectively (according to a Cetelem survey), whereas the share of the population using mobile internet in Portugal and Italy was below the average of the twelve countries surveyed (**Exhibit 20**). Despite the low use of mobile internet, Italy registered, in 2011, the higher percentage of people that who bought services or products (27%) through mobile internet.

In all these four countries, the tendency to purchasing online through mobile internet has been increasing exponentially. For instance, Cetelem estimates that the number of people in Spain that use smartphones or tablet to buy products or service will increase by 42% in the next few years. (**Exhibit 21**)[16]. Jongen also expects an increase in e-commerce "*Here, in Europe, we see a comparable trend. The Scandinavian countries and the United Kingdom are leading. Other countries will follow soon and fast: today*

[16] Data from a survey developed in 12 countries by Cetelem, in 2012. The data is a result of more than 6500 answers, at least 500 answers per country.

47.6% of all Europeans have a smart phone. Consumers are already connected nowadays; they can search and purchase wherever and whenever they want. A major challenge for innovative entrepreneurs who manage to jump on the bandwagon."[17]

To conclude, the e-commerce industry is attractive and its attractiveness has been increasing on a day-by-day basis.

Table 1: E- commerce industry attractiveness

	Value	Growth	Margin	Risk	Attractiveness
European Market (2012)			★★☆☆☆		**4/5**
	€ 311.6 billion	**19% (from 2011) (confirma se é mesmo assim)**	See Porter's five forces		
Attractiveness	**4/5**	**4/5**	**2/5**	**2/5**	

Source: Author's analysis and Ecommerce European Press Release - 05-23-2013, available at http://www.ecommerce-europe.eu/press/2013/05/press-release-european-e-commerce-to-reach-312-billion-in-2012-19-growth (Accessed at 4 December 2013)

Note: The "value" and "growth" refer to online purchases of products and services in European countries.

Question #4: ***What are the strengths and core competences of Zaask?*** **Hint:** Apply the Critical Success Factors framework to the analysis (Key Buying Factors, Competition Engine and Critical Success Factors) and the Core Competences framework. (30 minutes)

The understanding of the Critical Success Factors (CSF) of an industry by companies is fundamental to ensure their competitiveness, the recognition of CSF will allow companies to acknowledge what is most valuable by clients and to define the variables that best differentiate competitors from the buyers' perspectives.

[17] Ecommerce European Press Release available at http://www.ecommerce-europe.eu/press/2013/05/press-release-european-e-commerce-to-reach-312-billion-in-2012-19-growth (Accessed at 4 December 2013)

Key Buying Factors

People are becoming more and more dependent on new technologies. Nowadays, people do not just use computers and mobile phone for work and make calls but also for entertainment and to comfort, such us to buy online. This trend has been increasing over the years and will continue growing as a result of changes in the cultural mindset towards higher use of new technologies, which will likely result in more people using mobile internet (**Exhibit 16 and Exhibit 21**).

The possibility to shop online is facilitating people's lives, products/ services from all over the world can be bought at any time and with just one click (virtual shops are open 24h a day, 7 days per week and 365 days per year). This channel also simplifies the comparison between products/services' providers in terms of price and quality. In conclusion, online shopping is time- saving when compared with traditional shopping, since people do not need to spend time on queues and time searching for similar products/services falls exponentially, and can also be cost-saving, as rivalry in the goods/services market increases and pushes prices down (for example, the emergence of competitors in low-wage emerging markets, such as in China, will expand the supply of online products with similar quality).

Competition Factors

Online businesses must display user-friendly websites in order to guarantee potential clients. If websites are not intuitive or have long workflow, people walk away. Thus, companies inside this industry should be continuously improving their online platforms to make-buying-easy to their potential customers.

Service differentiation is also relevant. Online companies will want to differentiate their value proposals from their competitors. Therefore, professional services' providers for a wide range of tasks (categories) can be found on Zaask's platform.

The size of the network/community is also highly important in this industry because it increases the range of services providers available to answer clients' needs. With a large network/community, potential clients will have a higher range of professionals whose services and cost they can easily compare, and make a more confident decision.

Therefore, the size of network/community can differentiate competitors in the online services' market.

In addition, the large range of services providers competing for selection (the buyer of the service will select among the services' providers) guarantees, on average lower prices.

Critical Success Factors

After the identification of the Key Buying Factors and Competition Factors, it is possible to clearly point out the CSF of the online services' industry.

The price competitiveness and the convenience of online shopping are the critical success factors of this industry. Moreover, the wider range of services providers is also a vital factor since it transmits more trust to clients as they feel that more choice opportunities will be available. In addition, the possibility to easily compare prices and quality of a vast variety of products at the same place and in less time is another positive point of this industry.

Table 2: Critical success factors of the online services' industry

Key Buying Factors	Competition Factors	Critical Success Factors
• Open all day; • More information: comparison of price and quality; • Time-saving;	• Simplicity ("make-it-easy" sites); • Differentiation of the service; • Price range • Network/Community	• Price competitiveness • Convenience • Easy-comparison shop • Wide selection of services providers

Source: Author's analysis

The identification of a company's strengths and its core competence is essential to define its strategy. Core competences are strengths that most distinguish a certain company from its competitors in meeting clients' needs. A company's strength is a core competence if it creates significant value for the clients, if it is difficult to imitate and if allows access to new markets.

Zaask has currently four strong strengths: (i) its community management department, (ii) the "user-friendly platform"; (iii) its new and innovative concept and (iv) the product range.

The Zaask's community management (CM) department is responsible for the support to *askers* and *taskers* during all the buying/selling process. Hence *askers* are confident that there are "real people" behind the virtual website that will help them find the best *tasker* for their jobs. Moreover, the CM department is also responsible to understand *askers* and *taskers*' preferences and claims in order to determine future actions for improvement. Due to the close and constant interaction with *askers* and *taskers*, the CM department is strategically positioned to collect information of the extreme relevance for the management of the firm. This level of relationship between the CM department and *taskers* and *askers* as well as the ability to understand their needs takes cost and time to be successfully implemented. Finally, there are no similar websites with this similar focus on *askers* and *taskers.*

The easiness and intuitive features of Zaask's website are other strengths since it allow a bigger use of the website, until for people that are not familiarized with this kind of tools to find/hire professionals. Moreover, this features is understood by *askers* and *tasker*s as an efficient way to hire professional and to get new clients, respectively. Furthermore, this strengths will be useful in new markets for the same reasons mentioned before. However, this kind of feature has been adopted by many competitors of Zaask since it is relatively easy to do it.

The concept of Zaask has been well accepted by Portuguese people since they agree this is an efficient tool to hire local services providers. The website allow customers to receive multiple free quotes at the same place and, on average, at lower prices. Moreover, the guarantee of payments is other feature that add value for consumer. This new concept for European people will allow Zaask to enter in new markets. Although the concept of the company can be copied by other companies, it is not easy to combine this idea with a high quality and efficient service.

Zaask's website is divided in ten macro-categories of professionals and multiple sub-categories. This diversity allows Zaask to differentiate from specific websites of professionals and it permits that a client can hire professional for different needs at the same place. This strength as the previous one can be copied. However, it takes time to construct a large database of professionals in each dub-category.

In conclusion, the core competences o Zaask are its community management department, its strong concept and the product range.

Table 3: Zaask's core competences (CC)

Strengths	Value creation	Difficulty to imitate	Access to new markets	CC
• **Community management department**	Yes Asker feels a close monitoring during all the buying process	Yes It takes nontrivial time and cost to get the department fully working; therefore, usually it is not a priority of technology-based companies	Yes There are no other similar websites with a similar focus on *askers* and *taskers*	**YES**
• **"User-friendly platform"**	Yes Easiness to understand the process of posting a task and hiring a *tasker*	No Many of specific sites of professionals are improving their websites to facilitate their use.	Yes If a platform is intuitive, it will attract more users. So, this strength will be useful in new markets	**NO**
• **Strong concept**	Yes Clients can ask for multiples quotes at the same place and compare *taskers*'profiles	Yes The basic idea can be easily copied. However, it is difficult to combine the idea with a high quality and efficient service	Yes This new concept will allow the company to enter in new markets.	**YES**
• **Product range**	Yes Zaask platform is divided in 10 macro-categories of professionals and in many sub-categories.	Yes (in Portugal) It is relatively easy to copy the idea and to create an online platform with the same functions. However, it takes time and good networking to construct a large database of professionals for each sub-category.	Yes It can be easily implemented in other markets.	**YES**

Source: Author's analysis

To identify the areas in which the company has comparative advantage in the market and to access those areas that customers value the most is necessary to cross the industry's critical success factors with the company's core competences. As it is possible to observe in the **Table 4**, Zaask's concept and its product/services ranges are completely fit with the easier comparison shop, the convenience and wider range of services providers described before as some of the CSF of online services market industry. The Community Management and Strong Concept of Zaask are almost excellent, in terms of strategic fit, with the easy comparison shop and price competitiveness respectively.

Table 4: Critical success factors of the online services' industry

		Critical Success Factors			
		Easy comparison	Price Competitiveness	Convenience	Wide range of services providers
Core competences	Community Management	4			
	Strong concept	5	4	5	5
	Product range			5	5

Area of strategic fit (green cells)

Grades: Insufficient (1) to excellent (5)

Source: Author's analysis

Question #5: ***What are the opportunities and threats of Zaask?*** **Hint**: Perform a SWOT analysis framework. (20 minutes)

The identification of opportunities and threats of a company is crucial since it will affect company performance and they are caused by company's external factor. Therefore, the use of SWOT analysis is the adequate strategic tool to relate the strengths and weaknesses of a company with it opportunities and threats of surrounding environment.

Strengths

Zaask is the first company of online services in Portugal and in Europe since it does not have direct competitors (**Exhibit 10**). There are some specialized sites in Portugal, such as "Fotógrafos de Portugal" and "Portal do Artista", however Zaask aggregate professionals of different jobs categories in one site. Besides this value proposals, the *taskers*' review system increase clients' level of trust since they have the possibility to analyse *tasker*'s profile and previous reviews before hire him. Moreover, there are a perfect oversight of the tasks from the beginning of the process, when they are launched in the platform, to the very last end. Moreover, all tasks posted on Zaask's site are analyzed by Community Managers in order to see if they are real tasks or not and they also analyzed all *taskers*'s applications, which means that there are a great quality control.

Other company's strengths is the low cost, in terms of time and money, to find a service provider for a client's needs. Finally, the payment model is also a strengths since the payment is kept within the company until the asker approves the service

Weaknesses

The business model of Zaask is based on commissions that vary with the transaction amount. Thus, one of the Zaask's weaknesses is the impossibility to guarantee that all tasks are closed inside the platform. However, the combat of fraudulent behaviour is not the major concern of Zaask's managers since they want to prove that people considered Zaask as an efficient way to find local services providers and if a person closed a task, inside or outside platform, is because she considers that Zaask is a good channel to her need. The other weakness is the lack of services providers outside Lisbon and in same sub-categories. Nowadays, Zaask has a large database of local services providers in Lisbon. However, it has been losing good tasks because it does have services providers in some specific sub-categories or because some geographic places.

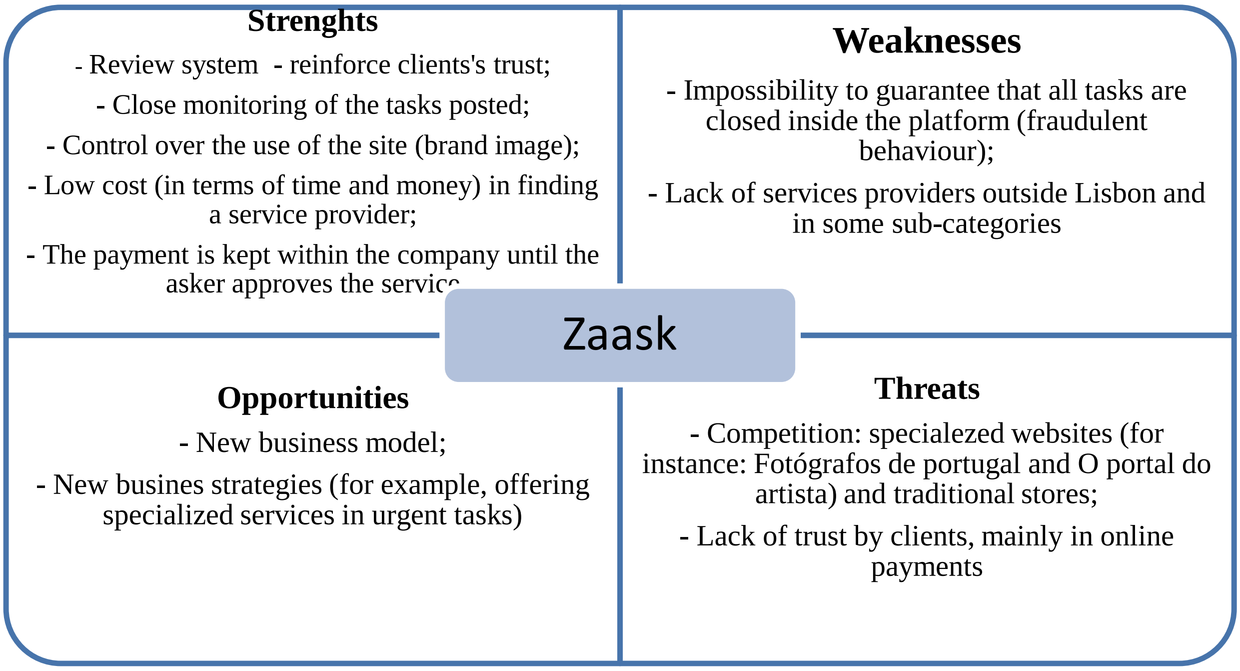
Opportunities

Besides the combat of fraudulent behaviour is not the major priority of Zaask's managers, the change of business model could be good way to surpass its weakness and the current business model could not be very efficient in an international scale. Hence, the total change of business model or the combination of the existing with other, such as subscription and CPL (Cost per Lead) could be a good opportunity to Zaask. Other opportunity to Zaask could be the development of a specific business model for some precise categories that usually have associated an urgent situations, such as plumbers and professionals that repair home appliances. In this way, Zaask could compete more effectively against traditional stores and insurance companies.

Threats

Despite of Zaask does not have yet direct competitor, it needs to compete against the specialized sites and traditional market since Zaask's service is a new concept. Therefore, people need time to know Zaask and to understand the advantages of using the site. Furthermore, there is the problem of lack of confidence of clients about online payments and since this point is one of the principals differentiation points of Zaask it represent a current threat.

Figure 5: SWOT analysis



Source: Author's analysis

PART II: Intermediate/Advanced strategic management (80 minutes)

Question #6: ***The Zaask's managers reduced their foreign market analysis down to three: Italy, Spain and the UK. How would you define the cultural, administrative, geographic and economic aspects from a proximity point of view?*** **Hint:** Follow the CAGE model.

A company in need to choose a foreign market to enter, needs to analyze differences between its home country and other countries. Therefore, managers should take into consideration four scopes of analysis: cultural, administrative, economic and geographical differences since the distance between two counties could be translated into costs and risks and threatening the overall success of the international process.

The author suggests that the instructor should use this question to develop the CAGE framework in order to analyse the four dimensions - cultural, administrative, geographic and economic – that are relevant for the UK, Spain and Italy in relation to Portugal.

Besides the financial and economic crisis that has been affecting Portugal since 2007, the Portuguese market has becoming more attractive market for investors as a result of market characteristics as well as the increasing of economic incentives. However, the Portuguese market is not enough for a company with the same business model (commission model) as Zaask, since it is dependent on a high number of effective transactions as economies of scale are in place.

The cultural distance is an important factor to analyse since it will affect how people will accept a company's product/services. However, this kind of differences is more malleable over the long-run when compared with other cultural differences, such as languages and religions. All countries analysed by Zaask are developed countries and they belong to Western European countries as well as European Union, which means that, in general, there is a cultural proximity among them, in terms of social laws and their main religion is the same (Christianism). The major difference is the language since none of these three countries have Portuguese as their mother tongue. The major linguistic distance should be between Portuguese and Italian since it is difficult to communicate with them if foreign person does not speak Italian. Moreover, the commercial relations between Portuguese and Spanish are older which can facilitate the entrance of a Portuguese company in Spain not only by the language proximity but also for the acceptability.

The use of internet to buy products and services has been increasing over the years in all these countries. However, there are still some differences among them. As it is possible to observe in the **Exhibit 18**, the UK records the biggest percentage of people, between 16 and 74 years that use internet**,** who has already bought online: 78% people in the UK buy products/services through internet (data refers to the year 2011). The other two countries, Spain and Italy, registered lower percentages of online purchase, of 28% and 10% respectively[18]. Moreover, it is also possible to observe that the South European countries registered the lowest percentages of people who bought through internet in 2011, which can be explained to some extent by the lower percentage of households with broad connections in those countries (**Exhibit 19**). In addition, in 2011, the use of mobile internet was relatively higher in the UK and in Spain – which registered 23% and 12% respectively - when compared with Portugal and Italy. All these countries demonstrate the same tendency that consists in the increasing of m-commerce (**Exhibit 21**). For instance, it is observable that Italy registered, in 2011, the higher percentage of people that use mobile internet to buy services or products (27%), and based on Cetelem's survey, the company estimates that in Spain the number of people that use smartphones or tablet to buy products or service will increase 42% in the short-term. In addition, the same company expects that Portugal will register the biggest increase, 66%, which will make it be at the same level of the other three countries.[19]

Besides the interesting numbers of people that buy products/services online, there are still some reasons that prevent a greater increase in online purchases. According to Cetelem's survey, the main reason is that people need to feel that the product/service is real or in other words, people need to "touch" the product or have references about the good / service provided before buying/hiring it. Furthermore, it is also important to highlight that the product/service quality often cannot be perceived when purchasing online and that people still have some restrictions about online payments (**Exhibit 22**). However, this reason affects more companies that work in the Southern countries since their population are more reluctant with online purchase.

[18] Eurostat regional yearbook 2013 – Chapter 8: Information Society.
[19] Data from a survey developed in 12 countries by Cetelem, in 2012. The data is a result of more than 6500 answers, at least 500 answers per country.

In conclusion, the cultural distance between Portugal, the UK and Spain is **low** but Portugal and Italy are not too far away, which means that this dimension is an attractive variable and the risk of cultural differences is low.

The administrative distance will be a large impact of management decisions because it will determine if a company can or cannot invest in a specific economy and how difficult it is, in terms of time and money. The countries analysed by Zaask belong to European Union, which means that there are free circulation of capital and it is possible to establish without problem in one of this countries[20]. Moreover, the monetary unit in Portugal is Euro and it is the same in Spain and Italy. The UK is the only one of this three with a different monetary unit, Libra.

According to Doing Business Report 2014, the UK is ranked 28th out of 189 economies in the index "Starting a Business". In this topic are covered the number of "steps that entrepreneurs can expect to go through to launch their business, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita". In the same ranking, Italy and Spain ranked 90th and 142nd, respectively, and are distant from the UK and from Portugal, which is ranked 32nd. Portugal and the UK are, in general, above the OECD average for all the sub topics studied within "Starting a Business". On the other hand, Spain and Italy are generally below the OECD average: for instance, the number of procedures required to start a business as well as the time needed in Spain are double of those in the OECD average. Furthermore, it costs entrepreneurs in Italy 4 times more in terms of per capita income (cost include "all official fees and fees for legal or professional services if such services are required by law") to open a business than it costs to the average entrepreneur in the OECD. Finally, it is noteworthy that all these four economies fell in "Starting a Business" ranking from last year (the UK registered the bigger fall, of 10 positions) [21] (**Exhibit 7**). In the same report is possible to know the "Paying Taxes" in each country, in order to understand the taxes that a "medium-size company must pay or supress in a given year, as well as measures of the administrative burden in paying taxes". In this topic is covered the "number of payments an entrepreneur must make; the

[20] The Treaty on the Functioning of the European Union , section III, art.26º; art.49º; art 52º, n1 and art 54º

[21] Doing Business – "Doing Business 2014 - Understanding Regulations for Small and Medium-Size Enterprises"- available at http://www.doingbusiness.org/data/exploreeconomies/italy#starting-a-business (Accessed 23 November 2013).

number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes". Based on the data, Italy is the worst country, out of these four countries, since it will register higher values in all sub-topics when compared with OECD, for instance the labour tax and contributions (as percentage of commercial income) will be 43.4% when the OECD average will be 23.1% and it is ranked 138th (last position of the rank). On the other hand, the UK is the better country when compared with the other three countries, it is ranked 14th out of 138 economies. Finally, Spain also performs better than Portugal in this topic, they are ranked 67th and 81th respectively, although Spain registered a big fell when compared with the previous year (it fell 34 positions) (**Exhibit 8**).

Finally, according to Corruption Perception Index 2013, the perception score of corruption in the public sector in Portugal is 62 in 100 and it is ranked 33th out of 177. The nearest country to Portugal based on this index is Spain that has a score of 59 and it is ranked 40th , the level of perceived corruption increased in Spain since its score decreases 6 points since previous years. The UK is the best position country among these four, it has a score of 76 and it is ranked 14th. On the other hand, Italy is the worst country in terms of perceived corruption since it has a score of 43 and it is ranked 69th (**Exhibit 9**). [22] Therefore, the administrative distance is **low** between Portugal and the UK, it is **low/medium** in relation to Spain and it is **medium** in relation to Italy.

All these three countries are physically near to Portugal, for instance the UK is separated by the Atlantic Ocean and Spain is the only country with land border. When compared with the UK and Spain, Italy is the far country from Portugal. Moreover, the time zone differences is minimum among these countries and Portugal, the maximum difference is one hour more in Spain and Italy when compared to Portugal. The biggest differences among Portugal and all these countries is the weather since they are colder than Portugal and the UK is sunless. However, this dimension is not much relevant for Zaask manager's decision since Zaask is a technology-based company that operate through internet and its "product" is the local services providers. For these reasons the

[22] Transparency International: Corruption Perceptions Index 2013 -available at http://www.transparency.org/cpi2013/results#myAnchor1 (accessed 4 December 2013). **Note:** The Corruption Perception Index scores 177 countries and territories on a scale between 0 (highly corrupt) and 100 (very clean).

geographical distance to the UK, Spain and Italy is **low**, thus the communication costs are low.

Finally, the economic distance, such as the differences between wealth's countries and their consumer's income, is a vital analysis to be considered by a company since is important that companies are aware of the scope of economic distance to evaluate the viability of producing and marketing its products in other countries.

In 2012, GDP per capita in the UK (measured in current US dollars in Purchasing Power Parity – PPP – to adjust for differences in price levels and nominal exchange rates) was US$ 36,569.4 PPP, above Spain's US$ 30,569.4 PPP and Italy's US$ 29,811.8. Portuguese GDP per capita was significantly below, at US$ 22,930.1 PPP. GDP per capita, although not perfect, is a good proxy for households' disposable income. Hence, the cross-country comparison suggests that Zaask has a strong market opportunity outside Portugal (**Exhibit 14**).

Furthermore, Zaask began its activity in an unfavourable economic context. Indeed, following the European sovereign debt crisis, last year GDP per capita contracted 1.1% in Portugal and 0.98% in Italy and was flat in Spain, whereas it grew by 1.1% in the UK. GDP per capita is expected to grow 2.0% in the UK and 0.2% in Spain in 2013, but nonetheless it should remain drop further in Portugal (-0.5%) and in Italy (-0.7%). 2014's prospects are more positive, according to the International Monetary Funds' projections (**Exhibit 15**). The economic distance among Portugal and the UK is **medium** and it is **low/medium** when compared with Spain and Italy.

To conclude, the fact that all these countries are European western countries and belong to European Union are relevant for Zaask since the geographic and administrative distances are low. Moreover, Portugal has been reducing the cultural distance with the UK and Spain. Although Italy is also reducing its cultural distance from Portugal, it is still far from Portugal when compared with others. Hence the application of CAGE model in Zaask's case study allow us to understand that the effects of differences and similarities on cross-border economic activity can be enormous and that distance suggests a good set of metrics for capturing the degree of difference vs. similarity between countries.

Table 5: CAGE model

	United Kingdom	**Spain**	**Italy**
Cultural distance	Low	Low	Medium /Low
	• Different language (although English is universal); • Same religion: Christianism (Anglicanism v.s Roman Catholicism) • Similar social norms	• Different language; • Same religion: Christianism (Roman Catholicism) • Similar social norms	• Different language; • Same religion: Christianism (Roman Catholicism) • Similar social norms
Administrative distance	Low	Low/Medium	Medium
	• Same Administrative regime: Democracy • European union policies • Different monetary unit (Libra vs Euro): company is exposed to exchange rate volatility • Lower level of corruption	• Same Administrative regime: Democracy • European union policies • Same monetary unit (Euro): no exchange rate volatility • Similar level of corruption	• Same Administrative regime: Democracy • European union policies • Same monetary unit (Euro): no exchange rate volatility • Higher level of corruption
Geographic distance	Low	Low	Low
	• Low geographic distance • Differences in climate (colder than Portugal and sunless)	• Nearest country • Differences in climate (colder than Portugal)	• Low geographic distance • Differences in climate (colder than Portugal)
Economic distance	Medium	Low/Medium	Low/Medium
	• Differences in consumer income (high income per capita)	• Differences in consumer income (medium income per capita)	• Differences in consumer income (medium income per capita)

Source: Author's analysis

Note: Each column represents the CAGE analysis of the specific country in relation to Portugal.

Question #7: ***What would be your recommendations to the Zaask's growth strategy in the future? (1) where should Zaask start its internationalization process; (2) should the company starts its internationalization process in one or more countries at the same time. (3) which extra variables should Zaask's managers take into account and (4) is the Zaask's business model sustainable in the medium/long-term?. Justify.***
Hint: Study the pros and cons of your decision.

Zaask's managers will decide based on a deeper analysis of variables studied in the case and other variables and they will also decide based on a financial assessment. In this question, students are asked to think strategically in order to present an analysis of the growth strategy they would recommend to Zaask since the case is not enough to answer to all that questions.

In the **Table 6** are described some examples for each question. These examples are only some guidelines to the discussion, and they can be used to make students think strategically about different perspectives and other strategies that Zaask can choose without follow pre-defined frameworks.

Table 6: Assessment of each strategy

(1) Where should Zaask start its internationalization process?					
UK		**Spain**		**Italy**	
Pros	**Cons**	**Pros**	**Cons**	**Pros**	**Cons**
- High percentage of people that buy through internet (people are more tech savvy); - One of the most important markets that can serve as a catapult for other countries; - The advantage of SEO (search	- High competitive market, which means that marketing costs need to be high; - Medium economic distance; - High competition on SEM (search	- Knowledge of the market and business relationships with Spanish; - High geographic proximity; - Similar needs and behavior as in Portugal - Low level of competition	- Medium administrative distance (CAGE model)	- Low competitive market; - Good expectations regarding the growth in e-commerce; - Possibility of growing in SEO (search engine optimization) through the acquisition of	- Difficulty to start a business(time and money spent is high) – Medium administrative distance

engine optimization) in this market is that the URL has expiring date, if the owner does not pay to have the ownership of the domain someone can buy it before the expire date, having access to the top search URLs.	engine marketing) and SEO (search engine optimization)	in terms of SEM (search engine marketing) and SEO (search engine optimization)		almost expiring URLs	

(2) Should the company start its internationalization process in one or more countries at the same time?			
One		**More than one**	
Pros	**Cons**	**Pros**	**Cons**
- Internationalization strategy focus in one country (possibility to adapt to local preferences, mainly in terms of marketing campaigns); - Low cost	- The opportunity to expand the business to other countries and enlarge the number of customers could be missed;	- Reduction of marketing costs: the same (or similar) marketing strategy could be used in the three countries at the same time; - Economies of scale: fixed costs will decrease relative to the company's operating income	- Less control during the first steps of internationalization; - Higher costs required

(3) Which extra variables should be analyzed?	
Variables	**Why?**
1) Online market regulation;	1) Zaask Company is an online business. Thus, online regulation can have a decisive impact on its activity.
2) Marketing & Human resources costs;	2) Marketing and human resources will represent the main costs to the company in the foreign country.
3) VAT	3) Differences in VAT taxes within the three countries analyzed will influence the company's expected net revenues

(4) Is the Zaask's business model sustainable in the medium/long-term?	
Pros	**Cons**
- Win-win situation: *taskers* consider the commission model the most fair business model; - It is a good model to start a business: it increases the number of *taskers* in the platform;	- The business model is not efficient when used in large scale since it implies a large control of the tasks; - The control phase requires too much attention from Community Managers. Other useful task may be therefore be penalized;

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