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Startup Audacious Path

Dynamic Capabilities and Distinctive Competence as source of Competitive Advantage

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ABSTRACT

Dreamshaper is a start-up that developed a new software tool focused on education. Such decision resulted from the company perception that the market lacked this kind of learning tool, simpler and more flexible, which target the future success of any young person and address the needs of any entrepreneur.

The business strategy followed by Dreamshaper and the challenges that this technological start-up faced constitute interesting topics for discussion to be explored in a strategy course and supported by theoretical concepts proposed in the literature review.

The suggested reflection focus on the main challenges and strategic options that a start-up faces: how to create a competitive advantage; how to start expansion; how to sustain its competitive advantage in the future.

RESUMO

A Dreamshaper é uma startup que desenvolveu uma nova ferramenta de software com foco na educação. Tal decisão resultou da percepção de que o mercado não tinha uma ferramenta de aprendizagem desta natureza, mais simples e mais flexível, com o objectivo de atender às necessidades de qualquer jovem ou empresário. A estratégia definida pela Dreamshaper, a construção da sua vantagem competitiva e os desafios que enfrentou no mercado constituem temas interessantes para discussão a serem explorados numa aula de estratégia, apoiados por conceitos teóricos propostos na revisão da literatura.

A reflexão incidiu sobre os principais desafios e opções estratégicas que uma startup enfrenta actualmente: como criar uma vantagem competitiva; que mercados escolher; como iniciar a sua expansão; como sustentar a sua vantagem competitiva no longo prazo.

ACKNOWLEDGMENTS

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My acknowledgements go also to two of the founders of Dreamshaper: Pedro Queiró and José Miguel Queimado, who not only warmly welcomed me in this start-up for an internship, as provide me all the information for this project.

Last but not least, I state a dear appreciation to my family. In particular, to my mother.

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I - CASE STUDY

1. INTRODUCTION

“Seven out of ten people in the world dream about opening their own business. Nine out of ten do not know how to do it”

Nowadays, theorists have come to the conclusion that IQ is not the exclusive determinant factor in the future success of students as previously thought.

In contrast to the cognitive competence of IQ, specific non cognitive variables are currently perceived as decisive in academic and professional success.

In this context, Education institutions feel increasing pressure to develop the social and emotional skills of their students. However, they struggle to integrate and develop those competences in the classroom.

In addition to this, schools and universities feel some difficulty to engage more their students and implement innovative teaching methods to develop students' non-cognitive skills. Moreover, there is still a significant dropout rate in universities driven by students' lack of interest.

Furthermore, employers are asking for better qualified students in term of socio-emotional skills (e.g. team work). In parallel, we assist to the speeding up of new technologies, which is challenging the classroom environment due to increasingly distracted students. In spite of this tech acceleration, the introduction of new technological tools often intimidates and ostracizes teachers (e.g. compete for the student attention). However, we cannot escape the reality of the increasing demand for more technology, either by students or parents.

In this context, it is to underline the growing demand for easy-to-use tools that support teachers to engage and develop their students in the classroom. This is what Dreamshaper was born for. Dreamshaper is a technology platform to support teachers introducing an entrepreneurship experience in their classroom.

On the one hand, Dreamshaper is an educational platform that aims to help teachers motivate their students through entrepreneurship group experiences centered in creativity stimulus, and adapted to the class goals.

On the other hand, it is a tool that was designed with a focus on simplicity, with the goal of being used by anybody.

In 2010 the creators of Dreamshaper posed the following challenge by creating this tool: “is it possible to set up a business plan without an Excel sheet or a PowerPoint presentation?”

The creators guarantee that it is indeed possible, just like the name suggests. According to research, seven out of ten people in the world dream about opening their own business. Nevertheless, nine out of ten do not know how to do it. Given that problem, this platform promises to offer the capabilities so that any person has a chance to pursue that dream.

2. INDUSTRY AND COMPETITORS

The Industry where this educational tools is inserted is the Online Learning Industry or the ELearning Industry. This industry is booming. More traditional methods of training or education are not going away, but organizations of all types, from public schools to corporations, are opting to train and inform via the web. The main two reasons they enumerate for this fact are the recognition of its convenience and effectiveness. The Global ELearning Industry Market reached \$32.1billion in revenue in 2010, with a five year compound annual rate of approximately 9,2%. In 2015 (see Exhibit 1), the global ELearning market is expected to reach \$107. Moreover the self-paced ELearning market is expecting to see estimated revenues of \$49,9 billion this year.

In addition to this, the growth rates per country show how each country adopts ELearning. This indicator has significant relevance since it can reveal revenue opportunities (the growth rate of eLearning per country is available on Exhibit 2). Indeed, the countries with the highest grow rates are China and India.

Online Corporate Training

The Massive Open Online Course, known as MOOC, has been a rising trend in Corporate Training. Currently 8% of companies worldwide¹ use MOOCs, while another 7% consider to experiment with MOOCs. It is predicted that in the following two years this percentage will rise to 28%. Some examples which reflect the increasing trend of the MOOC's use are: more than 350 companies cooperate with Coursera and Udacity to identify the best students that would probably make the best possible candidates for relevant jobs; Google has already enrolled 80,000 of its employees in Udacity's HTML course. Furthermore, the online corporate market is expected to grow by 13% per year up to 2017. Today, 77% of USA companies offer online corporate training to improve the professional development of their employees (the main corporate training delivery methods can be verified on Exhibit 3).

Large companies are the main purchasers of eLearning products and services. As a matter of fact, these companies make up roughly 30% of all eLearning buyers. More buyers include Schools, Universities and other types of Education Institutions.

Demand of eLearning Software Services

The following statistics present what the small, mid-sized and large companies intended to purchase in 2015, based on the 2014 Training Industry Report: 44% of companies intent to purchase online learning tools and systems; 41% of companies intent to purchase Learning Management Systems ; 37% of companies intent to purchase authoring tools/systems; 33% of companies intent to purchase classroom tools and systems ; 29% of companies intent to purchase content development products and services; 27% of companies intent to purchase courseware design and presentation tools and software; 18% of companies intent to purchase audio and web conferencing products and systems².

¹ <http://elearningindustry.com/elearning-statistics-and-facts-for-2015>

² <http://elearningindustry.com/elearning-statistics-and-facts-for-2015>

According to the eLearning statistics and facts of 2015, the future of the eLearning industry is paved with exponential growth and immense potential for profit.

The industry for online platforms that aim to support the construction of a business project is quite recent. Nevertheless, different platforms have been developing specified features. Dreamshaper has focused on these features: teaching entrepreneurship at scale; building projects focused on students' own ideas; controlling the whole process efficiently.

Dreamshaper does not have a perfect substitute (Exhibit 4) but it surely has a lot of competitors.

Competitors

The main competitors of Dreamshaper are divided by a specialization on a particular feature. The main competitors of online platforms that focus on teaching are: Coursera; Udemy; Khanacademy, Pluralsight, General Assembly, Lynda.com, and Udacity. The key competitors of online platforms which focus on building a business plan are: LeanMonitor, LivePlan, Enloop and Gust.

The biggest in the market are Plurasight, Lynda and General Assembly.

Pluralsight, is an online training service for technology professionals, has closed \$135 million in Series B funding last year. Lynda.com, the online learning giant and arguably the 800-pound giant in the e-learning space, took in \$103 million in growth equity from Accel Partners and Spectrum Equity, the site already had \$100 million in revenues with two million subscribers. The Lynda service has amassed more than 83,000 instructional videos, mainly on software and web development.

General Assembly is a hybrid of online and traditional learning (as in "in real life") that offers local workshops (in selected cities) and online courses. They have a whole range of business and technical topics, to sign up it is for free and then there is a payment on a per-course basis.

Finally, last year HP also announced a collaboration with the National Association for Community College Entrepreneurship (NAACE) where they help instructors from both rural and urban schools integrate HP LIFE e-Learning courses into their classes. It is a free, online program for high-school and community-college students to learn

essential business and IT skills by putting them into the shoes of an entrepreneur and giving them real-life business issues to tackle.

Overall, content is still the winning card for this market. The fundamental aspect that distinguishes Dreamshaper is precisely its content based on Harvard theory methods. Besides this, Dreamshaper's distinguish feature is the combination of theory with guided practice and a parallel relationship with teachers and users (Exhibit 4 shows the main attributes of competitors and a comparison with Dreamshaper's key features).

3. THE COMPANY

3.1 – Origin, Mission and Vision

A group of theorists composed by psychologists, journalists, economists and politicians have reflected recently about the effectiveness of the conventional teaching methods as well as what would be the ideal teaching methods that leverages students' capabilities and fosters their future success.

This group was composed by theorists such as: Angela Duckworth³ (American psychologist), James Heckman⁴ (an American economist), Paul Tough⁵ (Canadian-American writer) and Martin M. Solomon (American lawyer and Politian). These researchers reflected on a very simple premise of our days: is IQ the key factor determining the success of our young students? And are out traditional teaching methods oriented to enhance the success of our students?

Well, the major conclusion that these theorists came to is as follows: IQ is a cognitive skill that is not the exclusive determinant factor in the future success of students as previously thought.

³ She won a 2013 MacArthur Fellowship. She is associated with the study of the psychological trait known as grit.

⁴ Awarded the Prize for Economic Sciences in 2000 Alfred Nobel's memory. The Nobel prize was awarded to James Heckman because he answered to a simple question: What to do when we see only a part of a problem, and we know the rest "invisible" is very influential? The aspect that Heckman addressed was that of "selective samples". This problem occurs whenever the data collected only relate to a part of the possible universe. He wrote for example: *The Estimation of Income and Substitution Effects in the Model of Family Labor Supply* and also *Sample Selection Bias as a Specification Error*.

⁵ Known for his books, in particular: *How Children Succeed: Grit, Curiosity, and the Hidden Power of Character*.

In fact, those theorists concluded that there are non cognitive variables that are more correlated with the academic and professional success of students than solely the variable of IQ. After a deeper research, the two main non-cognitive skills that were referred as having a highly explanatory impact on academic and professional success were: the ability to control impulses; and the ability to concentrate and perform tasks that people dislike.

After this finding, the central problem was the perception that the current teaching methods were not particularly focused in developing these two non-cognitive skills (seen as the two most determinant in the success of young students). In this context, a group of Portuguese entrepreneurs had the will to make a contribute to modernize the teaching methods, making it more orientated to the students' development of those non-cognitive skills, with the goal of boosting their creativity and success.

This was the origin and aim of Dreamshaper: to make a contribution to the improvement of education. Concretely, through the creation of a tool that encourages the practical work and entrepreneurship, activities proven to stimulate the two key non-cognitive skills with major impact on success. Thus, Dreamshaper was born in 2010 in Portugal.

In fact, this firm was born linked to one Portuguese NGO called "Acredita Portugal". This NGO was dedicated to encouraging entrepreneurship and development of socio-emotional skills, through the creation of one of the biggest entrepreneurial contests in the world. The creator of this NGO thought it made sense to create a platform that could not only be a tool bridge for the contest, but also to be a tool to improve educating methods. The Dreamshaper platform would support teachers to introduce a project component within its field, in a simple, practical and fun, developing students' emotional and entrepreneurial skills.

The creation of this tool was based on a methodology designed with professors from Harvard Business School and Stanford University, and was a methodology tested 100,000 students and teachers.

The Dreamshaper's mission is to provide the opportunity and tools to all those who always wanted to learn to pursue their dreams and projects. The CEO, José Miguel

Queimado, believes that anyone, regardless of their academic experience or degree, can take an idea, develop it and test it.

The objective of Dreamshaper is to educate the highest possible number of people. Indeed, its goal is not to build an incubator neither to discover really good projects just to make money. The real goal of the company is to educate in large scale.

3.2 - From Idealization, to Production and Evolution

The Visionary

The number one booster of this start-up was José Miguel Queimado. In 2008 he decided to take an 800kms marathon across Portugal, from Caminha to Sagres. During this trip Miguel encountered a lot of people and discovered the variety of dreams, creativity and awakening ideas of the Portuguese people. He felt those people's ideas were undervalued and wanted to do something about it, so he determinately decided to *"fight the psychological crisis affecting the country, a crisis far more serious than the economic crisis."* With that purpose, this young entrepreneur joined with friends and founded the NGO called "Acredita Portugal" in 2008, which was the launching pad for Dreamshaper in 2013, as will be further explained.

The founder of NGO Acredita Portugal and Dreamshaper is a human metaphor of *entrepreneurship*. Indeed, he is true risk taker, resistant and passionate person.

The percentage of startups which fail is high, and that is a known fact which could undermine the mindset of the people working in one, in particular, in Dreamshaper. However, this CEO has been creating a culture of continuous effort and motivation inside Dreamshaper. He denotes particular cognitive and emotional intelligence, and shows the example to his team, by being very hard-working, maximum dedicated and disciplined regarding his tasks. He shows self-believe and confidence in his startup, but also adaptability towards his colleague's inputs. Furthermore, in the daily activities the CEO has a tendency for emotionally motivate his peers, he has daily individual talks with each colleague, shows sensitivity to other's subjective state and keeps encouraging all. Evidence of this are his facial and body expression, smiling and

introduction of optimism, according to colleagues. In addition to this, his ability to engage in improvisational behavior and empathy, were key factors which contributed to Dreamshaper's alliances and contributed to its expansion, given that his empathy has enhanced networking abilities.

The Platform Creation

Dreamshaper was founded in 2013 by three entrepreneurs José Miguel Queimado, the CEO, Pedro Queiró, the Head of the product and João Borges the Head of sales.

The three had already worked together in the NGO "Acredita Portugal" (Entrepreneurship NGO & Non-Profit Incubator). After five years of success working together, they decided to build Dreamshaper.

José Miguel Queimado, with a degree in Economics and Political Science, studied at Georgetown University, Stanford University and Harvard Business School. His professional experience includes Investment Banking, Director and Co-Founder of Dongua Group China (one of the largest chain manufacturers in *China*), consultant at McKinsey and the CEO of Groupon in Brazil. Currently, José Miguel is the CEO of Dreamshaper and also the President of the non-profit NGO Associação Acredita Portugal.

Pedro Queiró, has a degree in Physics Engineering by the Instituto Superior Técnico. His professional path includes a position as Senior Business Analyst also at the consultant company McKinsey. Currently, Pedro is the Head of Product of Dreamshaper and also the Chief Technology Officer of the non-profit NGO Acredita Portugal.

João Borges has a degree of Physical Sciences by the Universidade Lusófona, a Post graduation in Leadership and Management by the Technical University of Lisbon and adds a MBA in the Fundação Getúlio Vargas in Brazil. Regarding his professional experience, João has been the Sales Manager of STATS LLC (firm which provides technology and content for the main Internet, Broadcast and Media companies in Brazil) and was the Co-Founder and partner of WorkWell (a firm which offers

Corporate Health and Wellness Solutions). Currently, João is the Head of Sales of Dreamshaper and also Director of the non-profit NGO Acredita Portugal.

In 2013 the R&D for Dreamshaper started, and in 2014 it was launched in the market in Portugal. Still in 2014, there was an expansion to Brazil, where João Borges started working full time, and hired a fourth member, to help João Borges, Felipe Rodrigues.

Therefore, the firm has four employees, two with headquarters in Brazil and the other two (CEO and Head of Product) with headquarters in Portugal, though they frequently divide their work-time between Portugal and Brazil.

In the short-run the plan of the CEO is to hire two more people, one to assist the Head of Product and other to assist the sales and operations. So it is foreseen to have six working people in the short-run.

Development

Dreamshaper's production involves two parts: a technological production and a content production.

The technological production of the Dreamshaper is outsourced. The main supplier of is a Technology company called SEEGNO, with its headquarters in Braga, Portugal. The production of the software is done mainly by two SEEGNO engineers, one responsible for the product development and one designer.

Regarding the content creation, it is done by the three key founders of Dreamshaper who base their script and ideas in Harvard and Stanford teaching methods. They provide the know-how, the theory, the activities, decide on the platform functions and also choose the design of the platform (to be technically done by the Designer). Therefore, they are the driving force that leverages the production of Dreamshaper.

Their main resources are: the educational expertise (taught by Harvard and Stanford Universities), technological platform, interactive videos, enthusiastic leader, innovative design, partnerships, high quality suppliers. Their capabilities are: the bundling of the resources (its integration and coordination), innovation orientation,

strong networks, constant upgrade capacity and a cognitive and emotional investment of the leader.

After exploiting its relative strengths, the founders have built networks, developed human capital, built alliances, enhanced knowledge, integrating it all in one platform. This enabled them to create intangible resources.

The Platform – Features

The tool is based on the Canvas model and guides de user through a set of phases. Combined with this, the platform generates automatically PowerPoint Presentations, Excel documents and financial analysis adapted to the business in process.

It all starts with a user's idea. Then, the interactive software is very simple to use, it will lead the user through a series of phases which will have theory first, and practical parts after. The theory provided is composed by 80% of pedagogical videos, where the basis framework is taught to the user. The practical part is composed by tasks in the form of "games" (Exhibit 12 and 13 show a picture of the platform).

At the end, the software generates automatically a business plan and an investor grade. Overall, it allows to build a viable project out of one user's idea. It uses tested methodology, and was already used by 20.000 people.

According to the CEO "all the process was designed to be of super simple use, creating soft and light user experience, where the complexity of exercises grows gradually and the answers to previewed questions are continuously refined and improved".

Target

The main target of the tool includes: Schools, Universities and technical schools. Besides this, the startup sells the tool individually and in this case the target user differs geographically. In Portugal, the individual target user is between 35-45 years old, either unemployed, or unhappy with his current work, or simply wants to have an

extra complement to his regular income. Thus, this user aims to focus himself in an extra business outside his main job. Outside Portugal, the target is quite distinct, particularly due to studies which enhance the entrepreneurial spirit (Global Entrepreneurship Monitor). The Dreamshaper target are young people between 15 and 20 years old, mainly students that want to put their projects into practice.

Costs and Revenues

Regarding Dreamshaper's costs and revenues, the main fixed cost of Dreamshaper is the platform technological production (which has a cost of 13k€ per month maximum, depending on new product development and upgrading or just maintenance).

The variable costs of Dreamshaper include hiring actors, film editors and hiring spaces for shooting, for the content production which is uploaded in the platform. It is within these activities that the content for the platform is produced (see Exhibit 7 for costs evolution).

The revenue model of Dreamshaper is based on a monthly license fee per student, at a unit price of €15 per student per month. The average lifetime is 4 months (1 for a semester-length subject; if subject is annual, or if usage spans two semesters, lifetime will be 8 months) and the average Revenue Per User (ARPU) is €63,09.

Globally, the addressable market could be as large as ~250M students and 15.700M€ revenue. (Exhibit 14 shows the costs and revenues over the years).

Dreamshaper's Evolution

The Research and Development of the software occurred in September of 2013. At the 6th of January of 2014 the platform was launched as a "spin-off" startup bridged with the NGO Acredita Portugal (Entrepreneurship NGO & Non-Profit Incubator). Once this Entrepreneurship NGO reached thousands of people, Dreamshaper rapidly started to be used by thousands of people who would use the software to develop their entrepreneurial projects (see Exhibit 2 for market size and Exhibit 3 for the development forecast).

During the year of 2014, the platform was continuously updated and tested in the Portuguese market. Its success posed the hypothesis of expansion. Once opportunities of expansion appeared, Dreamshaper was expanded to Brazil (January of 2015) and to Colombia (September of 2015).

The expansion plan of the startup intends to launch in Latin America and European Union. Regarding its respective revenue's forecast, Dreamshaper expects to hit ~€19M in revenues by the end of 2017 (Exhibit 2 shows the market size in the European Union and in Brazil; Exhibit 3 shows the number future evolution forecast of Dreamshaper between 2015 and 2017 in terms of number of users; income; costs and EBITDA).

In Europe the strategy has the following plan: firstly, launch in Spain, UK and Germany; prioritise private universities in the UK and technical schools in Germany; and use the Latin American conversion to the expansion to Spain (Exhibits 5 and 6 show the market evolution and market size of Dreamshaper expansion plan).

4. INTERNATIONALIZATION

Given that this startup mission is to educate in scale, and to provide technological tools to those who want to implement a business project, the role of the internationalization was key. This justifies why only 1 year after launching, the team made an effort to expand.

Brazil

One of the founders of Dreamshaper, João Borges, was Brazilian. This was already an advantage to enter this market.

The first step happened in the beginning of 2014, and it was to expand the network on this country in order to search for opportunities and to find partners. One potentially interesting partner that caught Dreamshaper founders' attention, was Jorge Paulo Lemann. In fact, he was not only one of the richest men in Brazil, but also had a

Foundation that focused in the support of education in Brazil. The Lemann Foundation, founded in 2002 by Jorge Paulo Lemann⁶, was a Foundation that aimed to provide quality education for all Brazilian children, through the support of innovative projects in education. Indeed, this was as a good opportunity for Dreamshaper, as a technological tool which could meet the Foundation's goals, so the startup team made efforts to establish a partnership with it.

The second step was to obtain the Lemann's Foundation as a partner.

The third step was to leverage and conquer credibility and reputation in Brazil. After obtaining a key partner there, the Lemann's Foundation, Dreamshaper's team used its support to launch a Pilot Project: the Foundation would acquire fifteen licenses of Dreamshaper which would be used in fifteen different schools in Sao Paulo. The goal was to introduce the tool in Brazilian schools, evaluate the results promoted by Dreamshaper's usage and prove its utility and effectiveness for the learning process. Indeed, the Pilot Project was a success, showing significant learning results on students.

The fourth step was to enhance the tool's results across Brazilian's schools and use the Pilot Project outcome as evidence. It was a sample of real results that functioned as proof of the software efficacy. During this stage, Dreamshaper's collaborators tried to reach the maximum Pedagogical Directors as they could, in order to spread the tool, expand their network and attract new customers.

The final result was the increase of brand awareness and the expansion of the customer's list, resulting in current partnerships with 13 Universities, 3 Private High Schools and 17 Public High Schools (supported by Foundations such as the Lemann Foundation) across Brazil by the end of 2015. Thus, it was a very positive year and launching in Brazil.

⁶ A Swiss-Brasilian businessman of 76 years old, a descendant of Swiss immigrants, owner of the largest brewer in the world, AB inBev, owner of Burger King and of B2W. According to Forbes magazine, he is the richest man in Brazil, with a fortune estimated by Forbes at US\$25 billion. Lemann is also the 26th with the largest fortune in the world, in a ranking led by the American Bill Gates, founder of Microsoft.

Market overview

Brazil was a former Portuguese colony from 1500-1822. It is the largest economy of Latin America and the second largest in the western hemisphere, and the world's sixth largest economy (Exhibit 5.1 shows the economic indicators of Brazil). One of its priorities is to invest in human capital and increase the investments in education (Exhibit 5.2 shows the evolution of Government expenditure on education - total % of GDP). According to a search of Global Entrepreneurship Monitor in 2011 Brazil had 27 million adults aged between 18 and 64 either starting or owning a business. One in four Brazilian adults were entrepreneurs. With a population of over 200 million, it is one of the ten largest markets in the world. The Brazilian market can be interesting for Dreamshaper for three reasons: the increasing will of improving and modernizing education; the market size; and the remarkable entrepreneurial spirit. Indeed, it is a market with a lot of potential opportunities for Dreamshaper.

Colombia

The entrance in Colombia's market was also initiated by João Borges, the team's Brazilian collaborator. In fact, João had previously worked in a company called Tekton Technologies, responsible for software distribution headquartered in Colombia. By middle-end of the year of 2014, Tekton's former collaborators reached João and showed interest in collaborating with Dreamshaper. Their suggestion was to be a distributor of Dreamshaper in Colombia. This would indeed constitute a different selling strategy; it would consist on an intermediate sale. Tekton Technologies would sell Dreamshaper in Colombia, holding 30% of the sales and Dreamshaper would grant 70% of the sales.

In the beginning of 2015, the contract between Dreamshaper and Tekton was closed. By July of 2015 the software was running in one University and two contracts with other Universities were being negotiated.

Market Overview

Colombia is the fourth largest country in Latin America, according to its GDP (Exhibit 6.1 shows the economic indicators of Colombia). One of this country's priorities is to reduce the high unemployment rates. In this context, investments in education have been rising (Exhibit 6.2 shows the evolution of Government expenditure on education - total % of GDP). In terms of technology, Colombia has the fastest growing information technology industry in the world and has the longest fiber optic network in Latin America. Thus, the opportunities in the Colombian market are: the increasing trend of investments in education, the openness to technological tools and the first model of Dreamshaper produced in Spanish (test opportunity for future development in more Hispanic countries).

Internationalization Achievements

High technology start-ups compete globally and a global presence was a precondition to Dreamshaper, reinforced by its global mission. Nevertheless, there are relevant disadvantages that startups face in an internationalization process, namely the market access and effective global presence, which are typically easier to have access by established companies, who already have networks and people in place worldwide. Therefore, succeeding in entering in the South American market was a major achievement of this start-up as a symbolic first step in the global expansion. Dreamshaper was able to make a prompt market access in those two countries once it used smartly its networks and alliances.

5 - SUSTAINING COMPETITIVE ADVANTAGE

Dreamshaper does not own any intellectual property right on the platform. Being the product an online software, legally there would be a need to acquire that right in Europe (where the cost is around 30-40k€), and separately in the US and rest of the world. So in practice, more than one patent would be need to be bought.

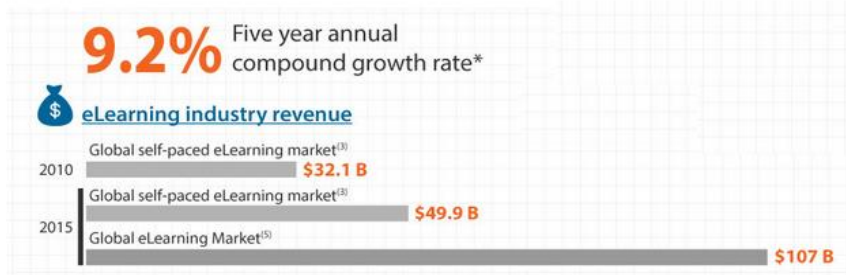
Concerning suppliers, Dreamshaper has one main supplier, SEEGNO, which is responsible for the platform production and technological development. Within all the costs of Dreamshaper the highest cost is effectively the outsourcing of the software production.

However, SEEGNO is a partner since the launch of the software, there is a trust-relationship which has been built and a guarantee of high technological quality, experience and skills. Moreover, it is a supplier which already knows well what the founders have envisioned and how they want in terms of technology and design production.

Currently, Dreamshaper is evaluating the hypothesis of vertical integration, particularly by hiring specialized engineers to work within the start-up to produce the platform in-house. This option has major opportunities but also threats for the firm.

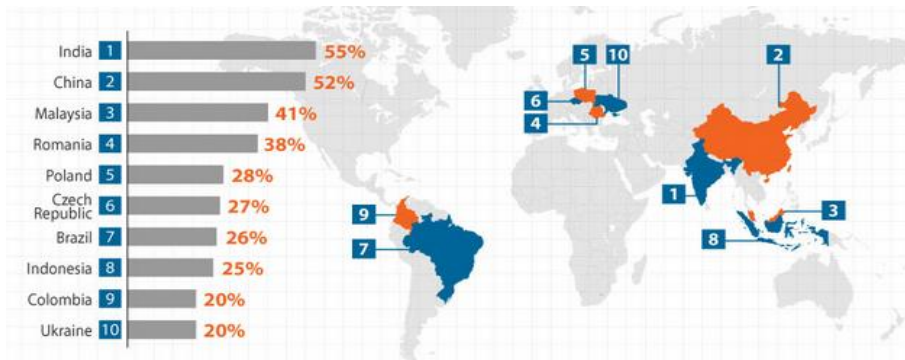
II – EXHIBITS

Exhibit 1 – The Global eLearning Industry Market



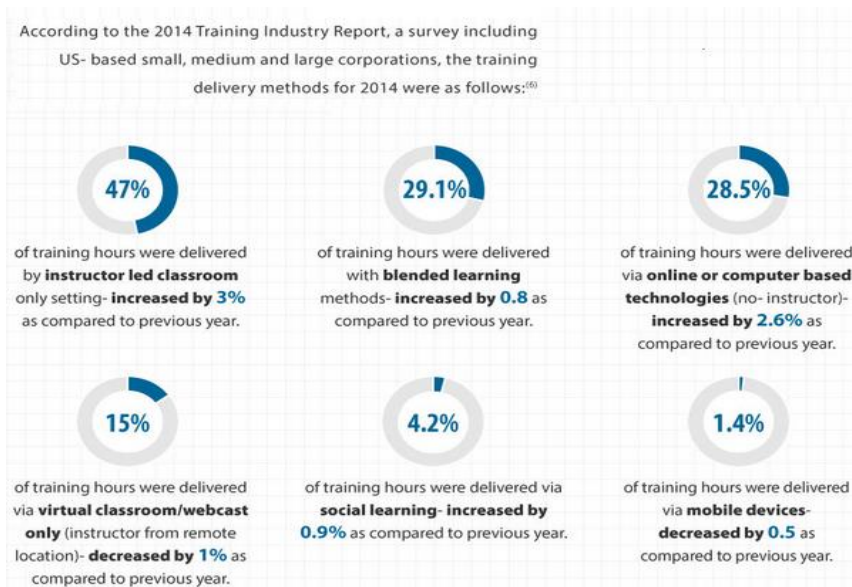
Source: <http://elearningindustry.com/elearning-statistics-and-facts-for-2015>

Exhibit 2 – The Top Ten growth rate of self-paced eLearning by country



Source: <http://elearningindustry.com/elearning-statistics-and-facts-for-2015>

Exhibit 3 – Corporate Training Deliver Methods



Source: <http://elearningindustry.com/elearning-statistics-and-facts-for-2015>

Exhibit 4 – Industry and Competitors

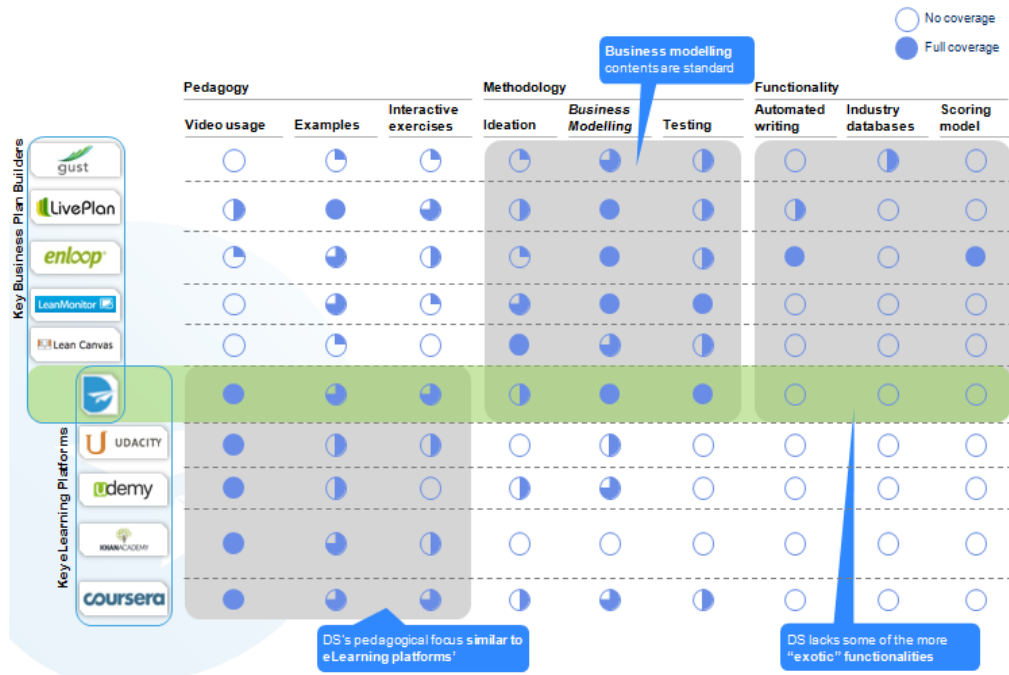


Exhibit 5 – Evolution and Expansion

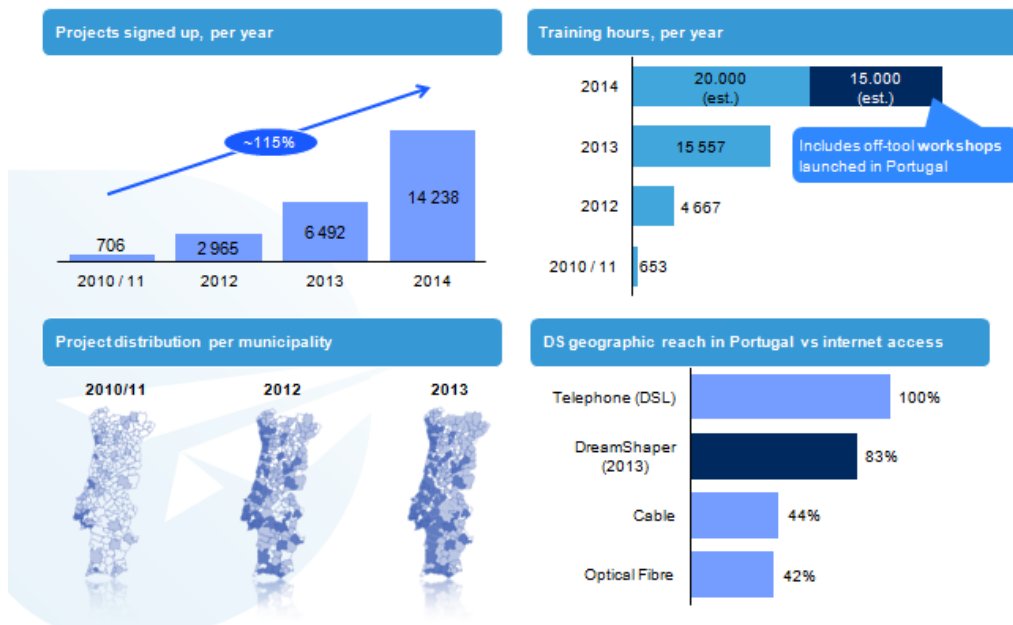


Exhibit 6 – Evolution and Expansion

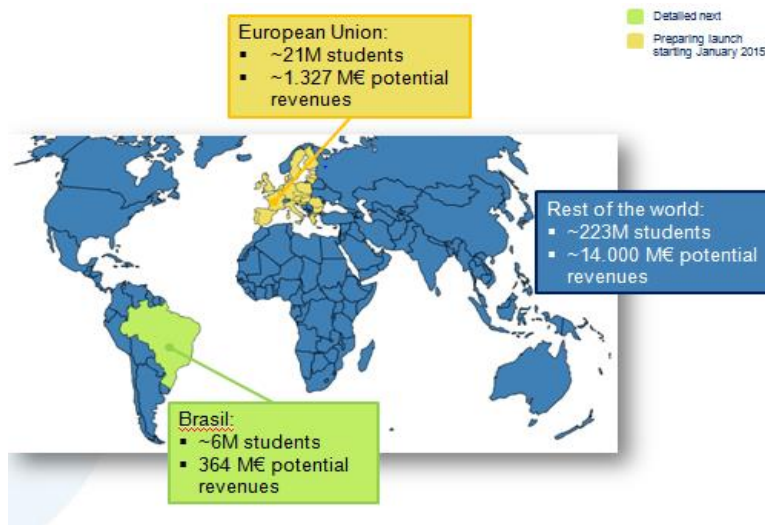


Exhibit 7 – Evolution and Expansion

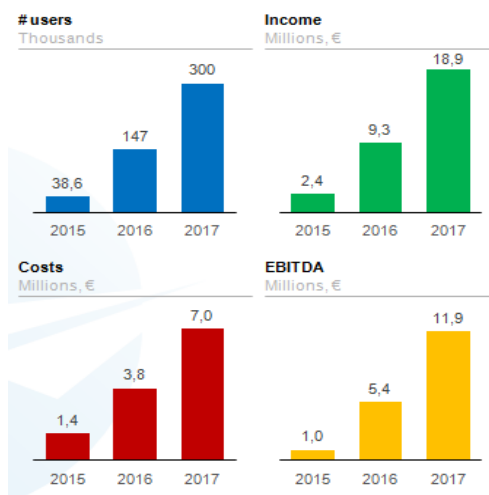


Exhibit 8 – Economic Indicators of Brazil

Source: worldbank

Indicator YEAR	2011	2012	2013	2014
GDP Growth (%)	3.9	1.8	2.7	0.1
GDP per capita	13,042.2	11,922.7	11,711.1	11,384.6

Exhibit 9 – Educational Indicators of Brazil

Source: worldbank

Evolution of Government Expenditure on Education (total % of GDP)

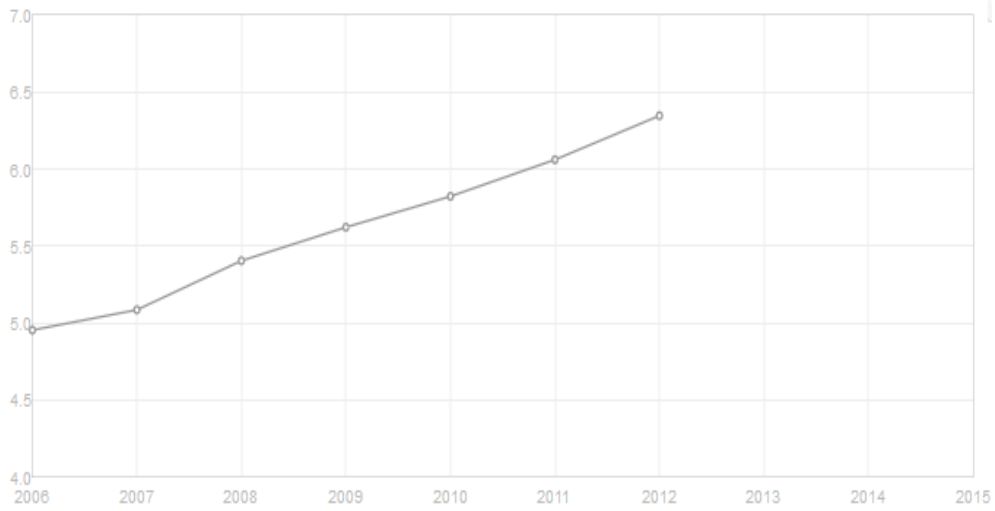


Exhibit 10 – Economic Indicators of Colombia

Indicator YEAR	2012	2013	2014
GDP Growth (%)	4.0	4.9	4.6
GDP per capita	7,885.1	8,028.0	1 7,903.9

Exhibit 11 – Educational Indicators of Colombia

Source: worldbank

Evolution of Government Expenditure on Education (total % of GDP)

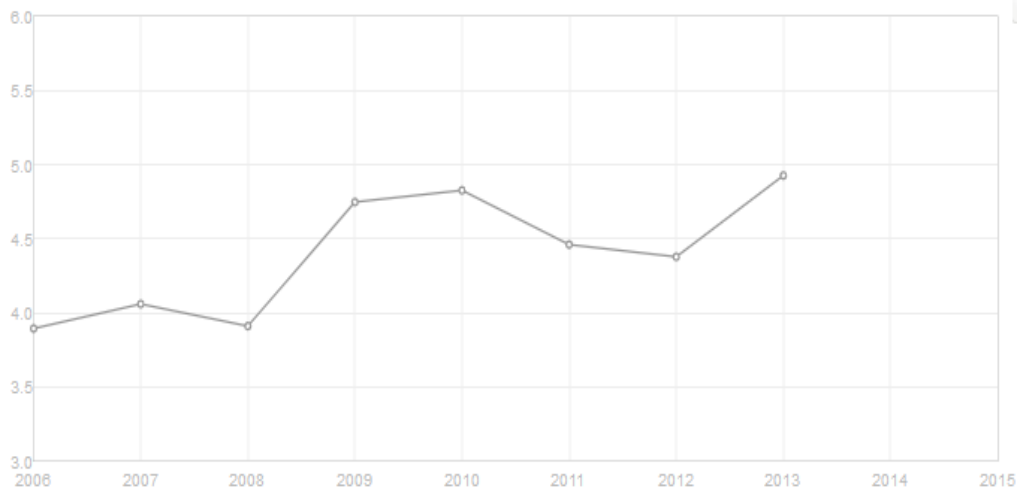


Exhibit 12 – Platform initial stage example (Portuguese version)

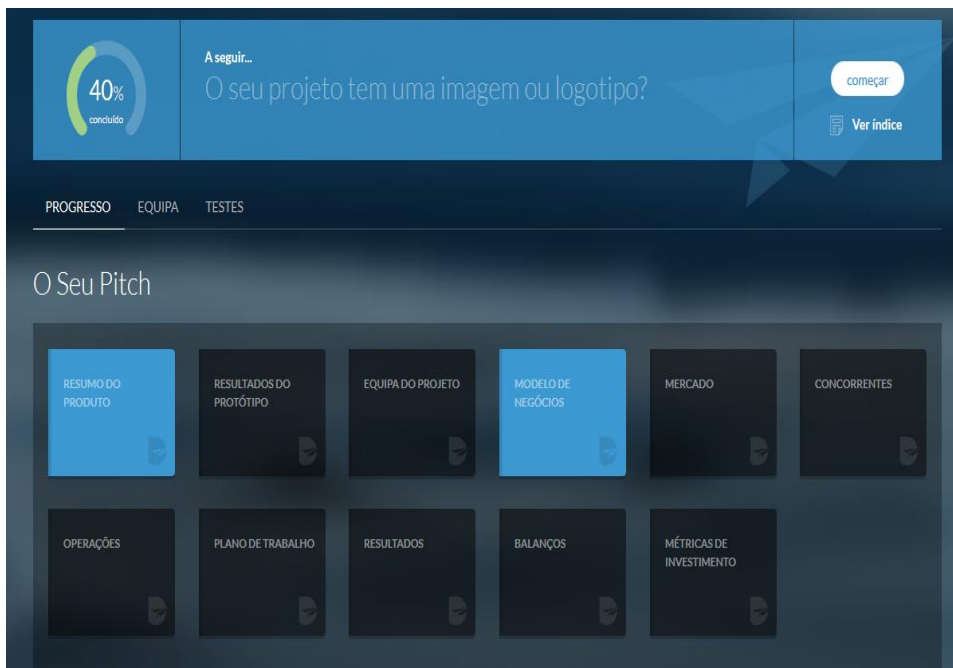


Exhibit 13 – Example of Content Videos Explanations

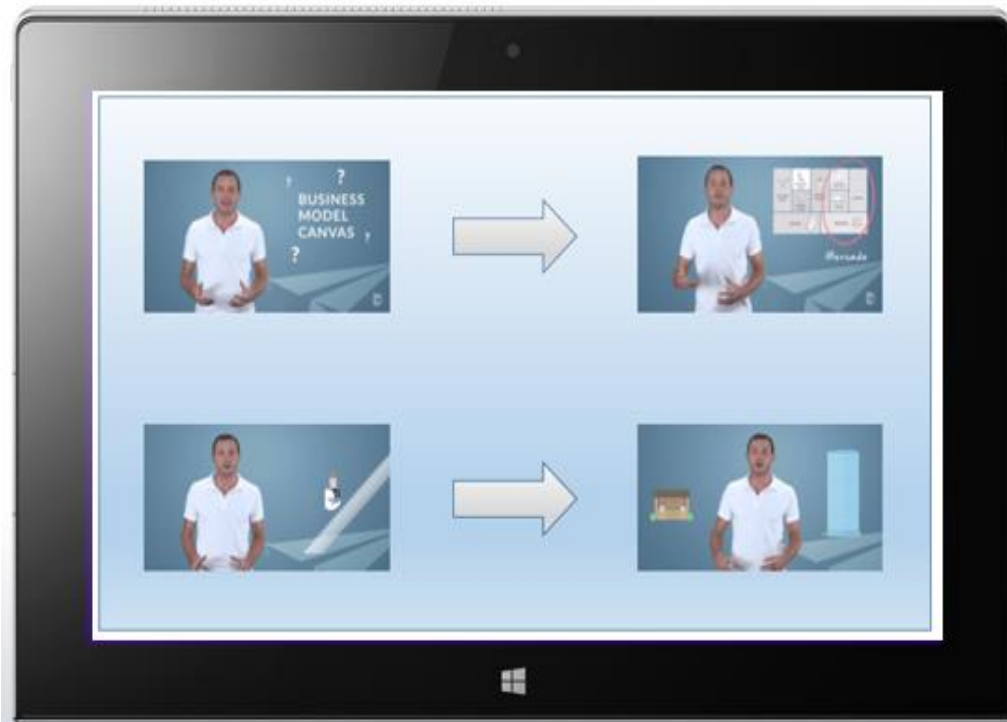


Exhibit 14 – Costs and Revenues

Year	2013	2014	2015	2016
Costs	62.000€	132.000€	167.000€	230.000€
Revenues	0	70.000€	110.000€	600.000€ (430.000€ signed in contracts)

III – LITERATURE REVIEW

1) PORTER’S FIVE FORCES

Michael Porter stated that “the first fundamental determinant of a firm’s profitability is industry attractiveness”. In any industry, the rules of competition are embodied in five forces: the threat of new entrants, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors (see Figure 1).

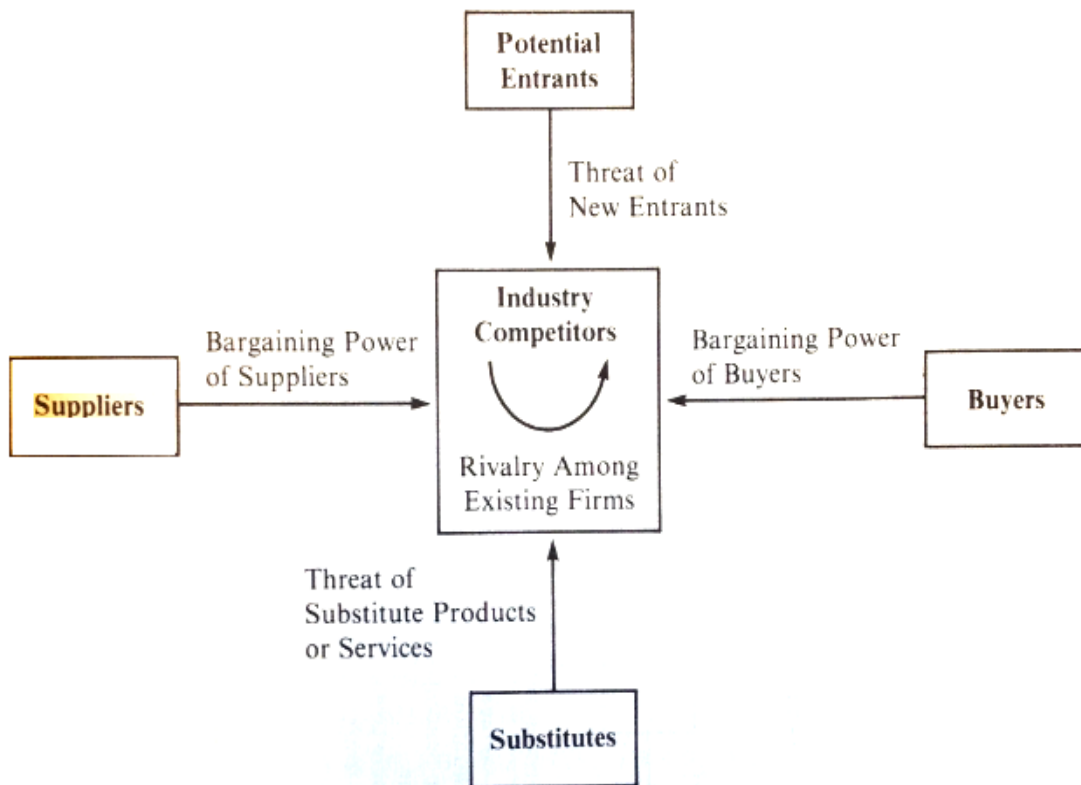


Figure 1: The Five Competitive Forces that determine Industry Profitability

Source: PORTER, M. 1985. *Competitive Advantage – Creating and sustaining superior performance*, New York, NY, The Free Press, page 5.

According to this author, the evaluation of an industry’s attractiveness as well as a firm’s positioning within that industry could be accessed through the analysis of these

five forces. Inherent within the notion of strategy is the search for the opportunity to identify bases of advantage. The aim is to identify if there are factors in the environment which influence the capability of an organization to position itself to such advantage (Porter, 1985).

The Threat of New Entrants

The key expression in analyzing the threat of entry is entry barriers, which prevent an influx of firms into an industry. Entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' positions. Entry barriers can have the following sources: irreversible resource commitments; economies of scale; capital requirement for entry; brand identity; switching costs; limited access to distribution channels; cost advantages independent of size; proprietary learning curve; access to necessary inputs; expected retaliation; product differentiation, or legislation or government action. Barriers of entry differ by industry and by product, so it should not be generalized about which are more important. What is fundamental is to establish which barriers, if any exist, secondly, to what extent they are likely to prevent entry in the particular environment concerned, and finally, the organization's position in all this – is it trying to prevent the competition of entrants, or is it attempting to gain entry? And how?

The Threat of Substitutes

Substitutes are the products or services provided by a firm's rivals that meet approximately the same customer needs but do so in different ways. In the extreme, substitutes can ultimately replace an industry's products and services. This happens when a substitute is clearly superior to previous products. The determinants elements of the substitution threat are: the relative price performance of substitutes; the switching costs and the buyer propensity to substitute.

Bargaining Power of Buyers

The buyers power is related with the relationship with buyers and sellers, which can have consequences in constraining the strategic freedom of an organization and influence the margins of that organization. The buyer power determinants can be divided into two components, the bargaining leverage and the price sensitivity. Related to the bargaining leverage is the buyer concentration versus the firm concentration; the buyer volume; and the buyer switching costs. Moreover, more factors are the buyer information; the ability to backward integration by the buyers; the existence of substitute products, which are alternative sources of supply; or the pull-through.

Related to the price sensitivity, factors to take into account are: product differences; brand identity; the ratio of price per total purchases; the buyers profits; the decision makers' incentives or the ratio of the impact on quality per level of performance.

Bargaining Power of Suppliers

The suppliers provide a wide variety of raw materials, labor and other critical assets to firms. Suppliers can threaten the performance of firms in an industry by increasing the prices of their supplies or by reducing the quality of their supplies. Any profits that were being earned in an industry can be transferred to suppliers in this way. The determinants of supplier power are: the differentiation of inputs; the switching costs of suppliers and firms in the industry; the supplier concentration and the presence of substitute inputs. In addition to those factors, it must be considered the importance of volume to supplier; the cost relative to total purchases in the industry and the impact of inputs on cost or differentiation. Finally, the supplier power depends on the threat of forward integration relative to the threat of backward integration by firms in the industry.

The degree of rivalry/ Industry Competitors

The degree of rivalry is one of the forces on which strategists have focused historically. It influences the extent to which the value created by an industry will be

dissipated through direct competition. It is related to the intensity of competition among a firm's direct competitors. The first rivalry determinants are the industry growth, the relation between the fixed costs and the value added and the product differences. In addition to these, factors that influence the rivalry are: the intermittent overcapacity, the brand identity, the switching costs and the information complexity. Finally, influences of rivalry are also related to the diversity of competitors, the corporate stakes, the exit barriers and the concentration and balance.

2) GENERIC COMPETITIVE STRATEGIES

The second central element in competitive strategy is a firm's relative position within its industry. Positioning is what determines whether a firm's profitability is above or below the industry average. According to Michael Porter, there are three generic strategies to achieve above-average performance in an industry: cost leadership, differentiation and focus. The focus strategy has two elements, cost focus and differentiation focus (See Figure 2).

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3a. Cost Focus	3b. Differentiation Focus

Figure 2 – Three Generic Strategies

Source: PORTER, M. 1985. *Competitive Advantage – Creating and sustaining superior performance*, New York, NY, The Free Press, page 12.

The most relevant idea is that competitive advantage is at the heart of any strategy as well as the choice about the type of competitive advantage (Porter, 1985).

Cost Leadership

This option is described by a firm's decision to become the low-cost producer in its industry. The sources of cost advantage may include economies of scale, proprietary technology preferential access to raw materials. A low cost producer must exploit all sources of cost advantage. Typically, this firms sell a standard product, once the main attention is on reaping scale or absolute cost advantages from all sources. Porter underlines that a firm which achieves and sustains cost leadership, will be an above-average performer. In fact, it will have equivalent or lower prices than its rivals. Thus, it will have higher returns. However, a cost leader must achieve parity in what concerns differentiation relative to its competitors. Only in that way it can be an above-average performer, even relying on cost leadership for its competitive advantage. The strategic logic behind cost leadership usually implies having one firm as a cost leader instead of a group of firms competing for this position.

Differentiation

The second generic strategy defined by Porter is a differentiation strategy, where the main assumption is that a firm seeks to be unique in its industry. It opts for one or more attributes that are considered to be valued by the customers and thus, tries to grant a unique position to meet those needs. A firm that is able to achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra costs incurred in being unique. Thus, a differentiator should constantly seek for ways of differentiating that lead to a price premium greater than the cost of differentiating. It is important that a firm which is a differentiator does not ignore its cost position, once its premium prices will be nullified by a markedly inferior cost position. Therefore, a differentiator will try to reach cost parity relative to its competitors, by reducing cost in all areas that do not affect differentiation. The key element which a differentiator must develop is to choose an attribute in which to differentiate from competitors. The bottom idea is about a firm being unique at something that justifies a premium price. In opposition to cost leadership, there can be more than one successful differentiation strategy in an industry if there are a number of attributes that are widely valued by buyers.

Focus

The last generic strategy is focus. This choice lies in opting for a narrow competitive scope within an industry. The firm chooses a segment in the industry and adapts its strategy to serve them to the exclusion of others. The focuser tries to optimize its strategy for that selected segment. In that way, it aims to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall.

The focus strategy can be more particular, as a cost focus or through a differentiation focus. In the cost focus, the firm seeks a cost advantage in its segment, while in a differentiator focus, the firm seeks differentiation in its segment. The target segments must have either buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Usually the target segments chosen are poorly served by broadly-targeted competitors. A focuser takes advantage of suboptimization in either direction by broadly-targeted competitors.

3) VALUE CHAIN

An enterprise can be seen as the aggregation of multiple phases, like production, delivery, distribution, and more. All those activities can be summarized using a value chain. In fact, this is the reflection of a firm's history and strategy (Figure 3). A value chain is a set of activities that must be accomplished to bring a product or service from raw materials to the point that it can be sold to a final customer (Barney, 2006). Although firms in the same industry may have similar value chains, the value chains of competitors often differ. Differences in value chains are a major source of competitive advantage.

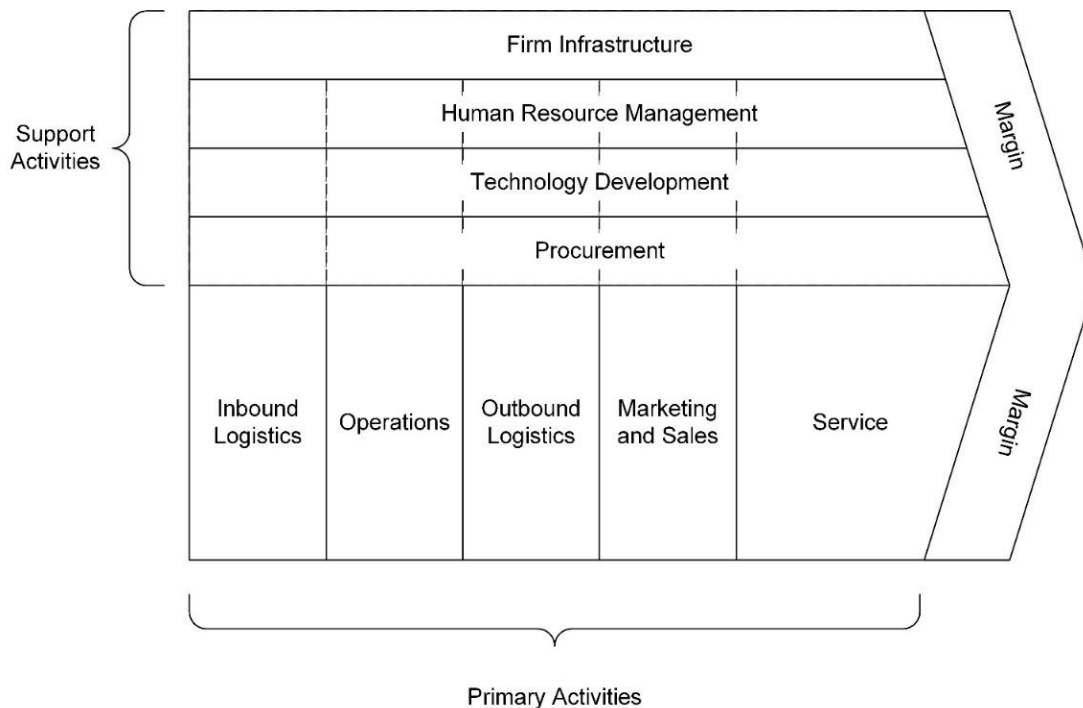


Figure 3: Value Chain

Source: PORTER, M. 1985. *Competitive Advantage – Creating and sustaining superior performance*, New York, NY, The Free Press, page 37.

The value produced is measured through total revenue. But a firm is profitable if the value it commands exceeds the costs involved in creating the product. The main goal of any strategic strategy is to create value for buyers that exceeds the cost of doing so.

The value chain shows total value, and consists of value activities and margin. Value activities are the physically and technologically distinct activities of a firm. The margin corresponds to the difference between the total value and the total cost.

Value activities can be divided into two broad types, primary activities and support activities. The primary activities are involved in the creation, sale, distribution and after-sales service. On the other hand, support activities are completing the primary activities by making available inputs, technology, human resources and more functions needed.

It is to underline that the dotted lines on Figure 3 show the fact that procurement, technology development and human resource management can be associated with specific primary activities and also support the entire chain. An analysis of the value

chain rather than value added is appropriate in order to evaluate competitive advantage (Porter, 1985).

4) PENROSE'S THEORY OF FIRM'S GROWTH

According to Barney (2002), Edith Penrose was one of the first authors to explore the theme of resources and competitive advantage, in particular to study the process through which firms grow and their growth' limits. Traditional economic models assumed that firms simply observed supply-and-demand conditions and translated those conditions into levels of production that maximized profits.

Managers faced a big challenge: exploit the firm's resources through the use of the administrative framework created within the firm. Penrose defines a firm as an autonomous unity, whose activities are coordinated by the management team (Penrose, 1959). However, Penrose's point is that a company is more than an administrative identity, it is a collection of productive resources whose availability over time is conditioned by administrative decisions. Penrose underlines that the true inputs of the firm are never the resources in themselves, but the services that the resources might generate. Therefore, Penrose key idea is that the final product produced by a firm is one of the multiple possible options that the firm has to use its resources.

The conclusion is the growth of the firm is a function of the bundle and coordination of its resources.

Furthermore, this author also developed a study about managerial teams, entrepreneurial skills and management groups. Penrose enhanced the role of entrepreneurs within companies, and stated that the theory of the firm's growth is essentially a test to the productive change opportunities of firms. Indeed, Penrose concluded that some managers are more versatile, some entrepreneurs are more capable of fund raising or better doing judgments. The author underlined the relevance of entrepreneurship in leadership. In fact, the idea emphasized is that a major source of innovation lies in the entrepreneur's eyes, and his capability to identify new opportunities in the market, that others cannot identify. Indeed, entrepreneurship is put as the foundation center for opportunities.

Thus, Penrose defends that the factors which determine and limit the growth of the firms are not defined by the level of the physical actives, but at the level of the managers' capabilities.

Finally, the author assumed that there might be additional sources of a firm heterogeneity. Although the main contribution that Penrose left regard the vision of the firm as a bundle of resources, she gave the first steps introducing the role of: the intangible actives, the entrepreneurship spirit, the knowledge assets (Penrose, 1959).

5) RESOURCES BASED VIEW

Following the first contribution given by Penrose, (first author to assume a firm as a bundling of resources), from 1960-1980, the central paradigm of the strategic management was about the conquering a sustainable competitive positioning.

The stage of this investigation had already adopted implicitly two assumptions: firstly, within one industry, firms are identical in what concerns the strategic resources that they control; secondly, models assume that any heterogeneity present in any industry, has a limited life-expectancy, once the resources that firms use to implement their strategy are quite mobile (due to the availability of being sold or bought in the market). The Resources Based View (RBV) is a new theoretical current which introduces new insights.

First, in opposition of what was taken as valid so far, this Resources Based Theory assumes that companies within a certain industry can be heterogeneous in what regards the strategic resources on their control.

Secondly, this Theory claims that those resources might not be perfectly mobile between different firms. Therefore, the heterogeneity might subsist for longer periods of time. Some example of resources for which there are no market are reputation or brand awareness. The Resources Based Theory assents in the key idea that there are imperfections in the factors' markets, which result from systematical differences between the companies' resources.

The Resources-Based Theory or View was an approach which appeared in the 1980s and 1990s that aim to achieve competitive advantage (Barney, 1991).

The new idea introduced by the RBV was that firms should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it. The following model explains Resources Based View and emphasizes the key points of it.

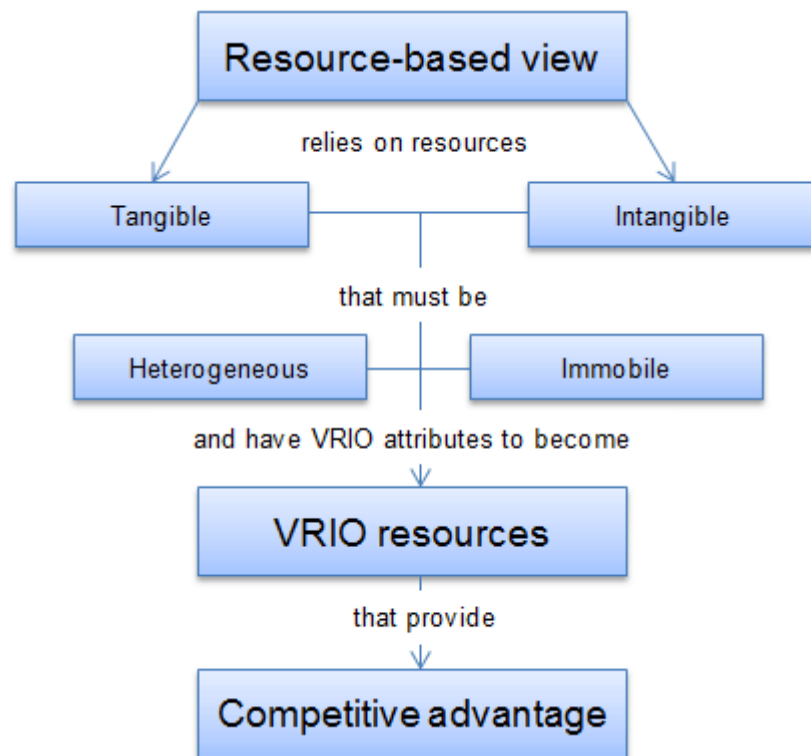


Figure 4: Resources Based View

Source, adapted from: BARNEY, J.B.2002. *Gaining and Sustaining Competitive Advantage*, Upper Saddle River, NJ, Prentice-Hall.

Resources

Barney defines resources as are tangible and intangible assets that are held by the company for some time and used by the firms for the development of their strategies (Barney, 2002). The RBV defends that resources only have a potential to generate economic value if they are indeed used to create and implement strategies.

There are two perspectives to categorize resources. On the one hand, according to their tangibility. On the other, according to their type.

Concerning their tangibility, resources might be classified as tangible or intangible. Tangible assets are physical possessions, such as land, buildings, machinery, equipment and capital. Physical resources can easily be bought in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. Intangible assets are everything else that has no physical presence but can still be owned by the company, for example, brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market. Intangible resources usually stay within a company and are the main source of sustainable competitive advantage.

Cardeal refers to four types of resources: first, human resources (Becker 1964), like training, experience, intelligence, abilities, critical sense; second, financial resources (Barney, 1995) like liquidity, or capital; third, physical resources (Williamson, 1975), for example, access to raw materials, or equipment; and fourthly, organizational resources (Tomer, 1987) such as interpersonal relationships within a firm, reputation (Cardeal, 2015).

Following Cardeal's perspective, the literature consensus states the sources of competitive advantage are majorly linked to intangible resources than with tangible resources. Moreover, Michael Porter underlined that tangible assets tend to depreciate over time, whereas the intangible can accumulate value over time (Porter, 1991).

Capabilities

Capabilities are resource sets to which companies have access and can be defined as intangible assets that enable firms to take advantage of other resources they command (Cardeal, 2015). Thus, examples of capabilities are the capacity of working within a team, the capacity to develop new products, experience, expertise, the operational flexibility. The capabilities might be considered as the intangible processes used by the firms to exploit their resources.

The link between resources and capabilities is of extreme relevance (Barney, 1991). This is related to the fact that resources *per se* do not constitute a competitive

advantage. Instead, the potential for obtaining competitive advantage results from the way a business operates and correlates their resources. Namely, through organizational processes that can be regarded as intermediates stages between the primary products and the final products to be sold (Cardeal, 2015).

Overall, companies are able to improve their organizational processes or routines. This process improvement is associated with a number of decisions aimed at optimizing the exploitation and integration of resources over time. These processes are characterized by being intangible, socially complex, ambiguous and sometimes almost mysterious. This fact makes these processes more difficult to imitate, which benefits the sustainability of competitive advantage.

The capability to organize a wide range of features and capabilities, such as production technology; the quality of products; the design; distributors and the company's relationship with the cluster in which it operates, is indeed a valuable capability, rare, unique and difficult to imitate.

VRIO Model

The central idea developed in the Resources-based Theory is that the origin of the competitive advantage relies in VRIO (*Valuable, Rare, Inimitable, Organization*) resources or capabilities. Those were the four attributes sustained by Barney (1997), which the author called the *VRIO resources* (Barney, 1997). If a firm has the organizational capacity to take advantage of valuable, rare, inimitable resources, then it may have a competitive advantage, which means, to be able to generate an economical value superior to the one of its marginal rival.

According to Barney's (1997) VRIO Model, the potential resources must be valuable by taking advantage from opportunities and counteract threats.

In what respects its rareness, resources should be rare in the sense of not being easily available in the market for everyone, namely available to rivals. An example of a rare capability of a firm is a good reputation to meet deadlines, reputation is not something easily acquired in the market. Thus, the control of rare capabilities by a firm is something which might grant it at least a temporary competitive advantage.

Regarding the “*inimitable*” feature of resources, if a firm possess valuable and rare resources but which are easy imitable, it is foreseeable that rivals will imitate that firm, which leads to a competitive parity.

In what respects the organization, if a firm aims to maximize the utility of its critical resources and capabilities, then it should have an organization which enables it to explore fully its potential. Examples of characteristics of an organization which maximizes its potential are: management control systems; incentives on performance systems; macrostructure. Only in this way is the firm capable of mitigating the external threats and develop an internal competitive advantage.

VRIO Test

Having in mind that the Resources Based Theory defends that the source of competitive advantage is situated either on VRIO resources or VRIO capabilities, it is time to test it. Firstly, one needs to identify the main resources ad capabilities of a firm and evaluate to what extend each of them passes in a VRIO test, so that it is possible to understand if the firm has indeed a competitive advantage or not (the figure above reflects this test).

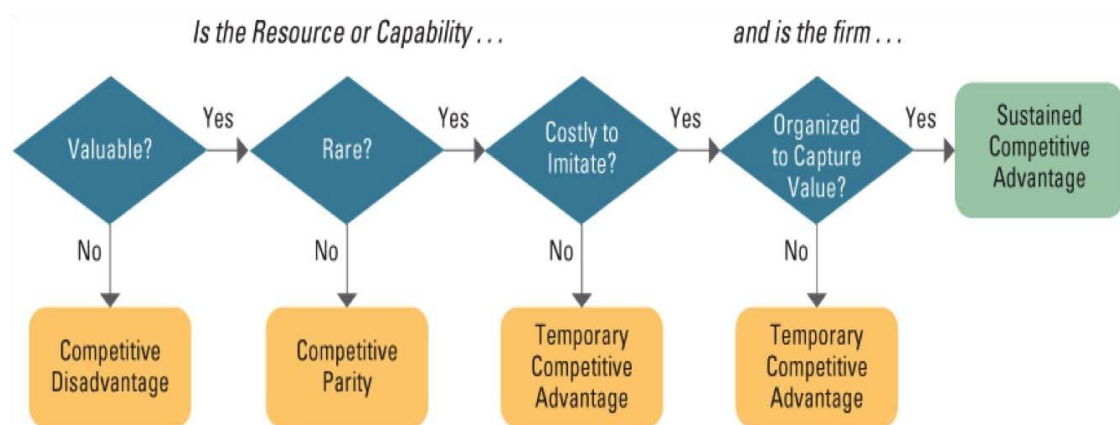


Figure 4: VRIO Test

Source, adapted from: CARDEAL, N. 2015. *Pensamento Estratégico. Antecipar as ondas do futuro*. Universidade Católica Editora.

To conclude, this Resources Based Theory accounts a strategy that is designed from the interior of the firm to the exterior.

6) DYNAMIC CAPABILITIES

The RBV was developed in the 1980s and 1990s and was defended for many years as the theory which explained competitive advantage. It claimed that competitive advantage comes from the heterogeneity of resources across firms, which be sustained over time. The view is based on a competitive advantage created from the interior of the firm. Nevertheless, it assumes the changing world as an equilibrium force, that does not affect that inside-sourced competitive advantage. It seems as a static perspective, based only in the side of the firm (Barney, 2001; Priem&Butler, 2001). The current globalized world is constantly redefining the business boundaries and environment. In a dynamic world, static resources will not guarantee survival. So, the RBV might not be sufficient: the dynamic capabilities theory is considered the extension of the RBV.

Firstly, this new theory will add the elements of environmental change, and considers external resources as an extra source of competitive advantage. This quotation sums up what this theory is:

“To have a persistent competitive advantage, firms must continue to invest in and upgrade their resources to create new strategic growth alternatives. They must possess some dynamic capabilities. These capabilities are organizational processes that alter the resource stock by creating, integrating, recombining and releasing resources” (Ambrosini & Bowman, 2009, p.49).

Secondly, the dynamic capabilities are considered as the firm’s means to solve problems. They are sustained by a propensity to identify opportunities and threats, to change the resource base, to adapt the business, and to make market-oriented decisions (Barreto 2010).

Thirdly, examples of dynamic capabilities are skills, innovation orientation, procedures, company culture and processes.

Fourthly, the benefits of these type of capabilities are the generation and protection of main intangible assets of a firm, which can be at the core of its competitive advantage. However, it should be enhanced that they are hard to deploy.

7) THEORIES OF DISTINCTIVE COMPETENCE

The first of the research traditions of modern study of firm about this subject focus on distinctive competencies. In this context, there are two main categories: the first examines general managers as distinctive competencies; the second examines other organizational attributes as distinctive competencies, the third, focus on the cognitive and emotional investment of leaders.

General Managers as Distinctive Competencies

General managers were defended to be the individuals who has the responsibility for analyzing the firm's environment, understand the firm's internal strengths and weaknesses and has the responsibility of choosing strategies to maximize a firm's value. The quality of general manager was thought to determine the performance of the firm. Therefore, high-quality managers were perceived as organizational strengths and low-quality general managers perceived as weaknesses.

The problem with this view was that it fails to be ambiguous and difficult to specify in certain cases. Moreover, they were considered an important for a firm's success, but not the only factors.

Institutional Leaders and Organizational Attributes as a Distinctive Competence

Some sociologists focused on the internal characteristics of a firm from a different perspective, examining the link between institutional leadership and distinctive competence (Barney, 2002). In their perspective, institutional leaders are more than the traditional managers, who focus on planning, organizing and controlling. He believes that the institutional leaders create and define a firm's purpose or mission. In addition to these, this type of leaders helps to create a vision for an organization around which its members can rally. Thus, they assure that the firm's activities really reflect its fundamental mission and vision. Their function is to safeguard the firms'

distinctive values and identity. Overall, it is precisely the combination of an organizational structure with an institutional leader help to establish the firm's distinctive competencies (“those activities that a particular firm does better than any competing firms”).

This author defended that firms can only have competitive advantage if they have distinctive competencies, and key source of those is the existence of leaders as visionaries and institution builders than do more than being just a manager or administrator.

Cognitive and Emotional Investment of Leaders

A purely cognitive investment is not the only variable one should take into account when analyzing an institutional work and performance. In fact, attending to both the cognitive and the emotional antecedents offers a better understanding of the “nuts and bolts” of institutional performance than what is possible with a solely cognitive approach (Goodwin & Pfaff, 2001).

The core idea is that emotional investment in the institutional order is even more important for institutional maintenance than cognitive investment, once it is the emotional investment that enables agents to “go the extra mile” in conducting maintenance work (Lawrence & Suddaby, 2006). To conclude, a cognitive and emotional investment at an individual level are directly related to the maintenance, the disruption and the creation of an institutional work.

8) VERTICAL INTEGRATION

A firm's level of vertical integration is simply the number of steps in this value chain that a firm accomplishes within its boundaries (Barney, 2006).

On the one hand, a firm might engage in a backward vertical integration, when it incorporates more stages of the value chain and those stages bring it closer to gaining access to raw materials. On the other hand, a firm engages in a forward vertical

integration when it incorporates more states of the value chain and those stages bring it closer to interacting directly with final customers.

Vertical Integration and the Threat of Opportunism

A possible scenario is to use vertical integration to reduce the threat of opportunism. Opportunism exist when a firm is unfairly exploited in an exchange (Barney, 2006). When an exchange partner behaves opportunistically, this reduces the economic value of a firm. One way to reduce the threat of opportunism is to bring an exchange within the boundary of a firm, that is, to vertically integrate into this exchange. This way, managers in a firm can directly monitor and control this exchange instead of relying on the market to manage it. Surely, firm should only bring market exchanges within their boundaries when the cost of vertical integration is less than the cost of opportunism. If the cost of vertical integration is greater than the cost of opportunism, then firms should not vertically integrate into an exchange. The main point is to know when the threat of opportunism is big enough to warrant vertical integration. Research has shown that the threat of opportunism is greater when a party to an exchange has made what are called transaction-specific investments (Barney & Hesterly, 2006). In this way, a transaction-specific investment is any investment in an exchange that has significantly more value in the current exchange than it does in alternative exchanges. Transaction-specific investments make parties to an exchange vulnerable to opportunism and vertical integration solves this vulnerability problem. Thus, it is a valuable option when it reduces threats from a firm's suppliers or buyers.

Vertical Integration and the Firm capabilities

Another possible approach to vertical integration decisions focuses on a firm's capabilities and its ability to generate sustained competitive advantages. There are two key elements to take into consideration when analyzing this scenario.

Firstly, it proposes that firms should vertically integrate into those business activities where they, in fact, own valuable, rare, and costly-to-imitate resources and

capabilities. Indeed, firms can appropriate at least some of the profits that using these capabilities to exploit environmental opportunities will create.

Secondly, this line of thought also suggests that firms should not vertically integrate into business activities where they do not own the resources necessary to gain competitive advantages. In this way, such vertical integration decisions would not be a source of profits to a firm, since they do not possess any of the valuable, rare, or costly-to-imitate resources needed to gain competitive advantages in these business activities. In fact, to the extent that some other firms have competitive advantages in these business activities, vertically integrating into them could even put a firm at a competitive disadvantage.

To conclude, the core idea of the capabilities approach to vertical integration is this: if a firm possesses valuable, rare and costly-to-imitate resources in a business activity, it should vertically integrate into that activity; otherwise, it is not advisable to incur into a vertical integration. Although it is possible to identify a contradiction between opportunism and capabilities explanations related to the decision of vertically integrate or not, in the majority of the cases these explanations are complementary in nature. So, applying those approaches generally leads to the same conclusions. Furthermore, sometimes it is simpler to apply only one of these approaches to evaluate a firm's decision of vertical integration, rather than two.

IV – TEACHING NOTES

1. Use of the Case

The Dreamshaper's case aims to be an example of the main challenges and strategic choices that a start-up faces on its early years of existence, namely the creation and sustainability of competitive advantage.

This study was prepared for class discussion purposes along with the proposed questions, and not as a source of primary data or illustration of ineffective strategic choices.

The purpose of this case is to explore the key concepts of strategy in a Strategic Management course. After the launching of a technological product, strategic challenges emerge and different paths are possible. This case reflects on a creation of a competitive advantage based in dynamic capabilities and distinctive competence.

2. Synopsis

This case is centered in an educational platform that focuses on young students, professors and entrepreneurs. It aims to underline primordial strategic challenges faced by a startup: how to use different capabilities and resources to build competitive advantage, how to enter the market, how to conquer a positioning. Given the constant arise of new technology platforms, how can Dreamshaper as educational software sustain its competitive advantage in the future? What measures should it consider to pursue this goal?

The goal of this case is precisely to answer these questions.

3. Suggested Assignment Questions

- 1- *Explore the attractiveness of this industry, through a Five Porter's analysis.*
- 2- *Examine which is Dreamshaper's generic competitive strategy and its Value Chain.*
- 3- *Following a Resources Based View, make a VRIO test of Dreamshaper's resources and capabilities.*
- 4- *Evaluate Dreamshaper's Dynamic Capabilities and evaluate the sustainability of its competitive advantage.*
- 5- *According to Theories of Distinctive Competence, what are Dreamshaper's Distinctive Competences?*
- 6- *Evaluate the possibility of a vertical integration of Dreamshaper.*

4. Teaching objectives

The educational goal proposed is to give management students the opportunity to apply the knowledge and challenges of a start-up acquired in the classroom, in a real business case. Indeed, the teaching objectives are the following:

- Highlight the key drivers to evaluate a firm's resources and capabilities
- Underline the existence of distinctive competences and dynamic capabilities that can be used to build a competitive strategy
- Call the attention to the sustainability of the competitive advantage, in particular the option of vertical integration
- Underline how a firm's strategy must be aligned with its mission and vision
- How a start-up can enter the market and explore its relative strengths
- How to give recommendations based on the market environment and competitive advantage of this product

In order to achieve these teaching objectives, students must focus on the environmental analysis, internal evaluation and market opportunities. Thus, to study and evaluate this case, students can use some particular strategy frameworks such as a Porter Five Forces analysis, a VRIO test and more. Overall, students must be prepared to evaluate the strategic choices, use of resources, and creation of dynamic capabilities, and how this startup transformed its competences into an advantage.

5. Analysis

1 - Explore the attractiveness of this industry, through a Five Porter's analysis.

In order to investigate the attractiveness of an industry, namely the ELearning industry, it is essential to look into the Porter's Five Forces. Following this model of analysis, we will focus on: the threat of new entrants, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the threat of competitors.

The Threat of New Entrants

There are three entrant barriers in this industry: first, the high capital requirement associated with the development of a technological software; second, the fact that it is not a mature industry, makes uncertainty about its receptivity a barrier. Thus, the fact that it is an emergent industry can be a barrier, once it involves more risk. Third, emerging industries demand more marketing expenses, once the product or service for sale is unproven, therefore, there's a need to convince investors and consumers that it is valuable.

The extent to which those barriers would prevent new entries is medium, once investments in technology products are becoming more frequent, and though it is an emerging industry, it is an industry that has been increasing significantly.

Overall, there is a medium threat of new entrants.

The Threat of Substitutes

Any other educational tool that is not an online platform can be regarded as a substitute. In particular, live classes, books and more traditional ways of learning. The switching costs are medium, and the price of the substitute products or services varies. If we consider live classes, they also have a monthly price, that tends to be higher than

ELearning monthly fees. If we consider books, they have only an acquisition price instead of monthly payments, so they have an inferior price overall. Concerning functionalities, the ELearning industry has a wider range of functions, attributes and performance than substitute industries. However, the buyers' propensity to substitute industry is still rather high, given the emergent and unproven side of the ELearning industry.

To conclude, the main substitutes of this industry are the conventional teaching methods and there is a medium threat of substitution.

Bargaining Power of Buyers

This is an emergent industry for a discretionary product and customers are still getting to understand its usage and figuring out its value. In this way, it makes sense not to enter with a very aggressive price policy, but a rather flexible one. Given this, customers are price sensitive and have a considerable power to negotiate prices. Indeed, there is a high level of bargaining power of buyers.

Bargaining Power of Suppliers

The ELearning industry is technology specialized dependent, therefore technological suppliers have a significant power over firms. The supplier concentration is medium, but there are no substitute inputs. However, if companies within the industry are vertically integrated, this bargaining power is not to be considered. Thus, if not vertically integrated, there is a high level of bargaining power.

The degree of rivalry/ Industry Competitors

One can assume as competitors any other industry that intends to teach. With that being said, Schools, Universities, Books' industry can all be considered as rival industries to the E-Learning industry. Firstly, if we compare the industry growth stages among rivals (conventional teaching industries) and the ELearning industry, we can state that rivals are in the mature phase, whereas the ELearning industry is in the

emerging phase, having still a high profit potential given that it is expected to evolve to the growth phase. Secondly, if we compare the relation between fixed costs and value added, the ELearning industry requires high technological fixed costs, and it has a potentially high value added (variety, time saving, flexible, efficient). Thirdly, the product differences between traditional teaching industries and the ELearning industry are very significant. Fourthly, the switching costs are medium, it depends with which particular industry we compare the ELearning. Nevertheless, it is possible to identify a complementarity nature of the ELearning industry in relation to some of its competitors. To conclude, the degree of rivalry is considered high, but with a possibility of complementarity.

Overall, the ELearning industry can be perceived as a medium attractive industry. On the one hand, the five environmental threats have a medium impact on its future prospects, but are not high enough to undermine it. On the other hand, being an emerging industry, makes it an interesting industry with growth potentiality.

2 - Examine which is Dreamshaper's generic competitive strategy and its Value Chain.

Dreamshaper seeks to be unique within its industry. It intends to be simpler and combine framework with real life, attempting to grant a unique position to meet customer's needs. It is constantly upgrading its content and seeking ways of differentiation. It tries to reach cost parity relative to its competitors, by reducing cost in all areas that do not affect differentiation. The bottom idea is about revolutionizing the E-learning platforms industry, by introducing a simpler and more friendly-use software in the market, that help students, teachers and entrepreneurs. To conclude, Dreamshaper has a differentiation strategy. It attempts to increase customer's willingness to pay through an innovating product. In order to understand how this startup is able to create this value proposition to the consumer, it is quite useful to analyze its Value Chain.

Secondary Activities	Firm Infrastructure	Private Equity Firm; CEO: Miguel Queimado			
	Human Resources Management	Recruitment; High passionate and motivated employees; incentives; feedback system; performance tracking system			
	Technology Development	Outsource technology production; responsible for product design; testing; investment in R&D			
	Procurement	One big key supplier, which results in a high bargaining power			
Primary Activities	Inbound Logistics	Operations	Outbound Logistics and Services	Marketing and Sales	After Sales Services
	Factory in Braga (technology outsourced there) Contract with SEEGNO Contract of actors and Editors	Outsource technology parts Assemble of technology Design Platform Testing Product Development in House	Orders Processing Prepare and Sell Proximate relationship with clients; long time building trust relationships; Gaming Experience	Social Media Community based approach	Direct Relationship of customers Support system Product Community Center Guest Center

3 - Following a Resources Based View, make a VRIO test of Dreamshaper's resources.

Dreamshaper's resources are: a technological platform, educational expertise; enthusiastic leader; innovative design; interactive videos; partnerships; high quality suppliers.

RESOURCE	Technological Platform	Educational Expertise	Enthusiastic Leader	Innovative Design	Interactive Videos	Partnerships	High quality suppliers
VALUABLE	YES	YES	YES	YES	YES	YES	YES
RARE	NO	NO	YES	NO	NO	NO	NO
IMITABLE	YES	YES	NO	YES	YES	YES	YES
ORGANIZATION	YES	YES	YES	YES	YES	YES	YES

All the resources are valuable, once they take advantage from opportunities and counteract threats, and give a contribution to the added value of the platform.

In what respects its rareness, the enthusiastic leader, the partnerships and the high quality suppliers can be considered as rare once they are not easily available in the market for everyone.

Regarding the "inimitable" all resources are relatively imitable except the enthusiastic leader.

In what respects the organization, all the resources are fully exploring its potential and have a key role in the macrostructure of the startup.

Concerning capabilities, Dreamshaper has the following capabilities: the bundling of its resources; innovation orientation; strong networks; constant upgrading capacity and cognitive and emotional investment of the leader.

<u>CAPABILITY</u>	Bundling of resources	Innovation orientation	Strong networks	Constant Upgrading Capacity	Cognitive and emotional investment of the Leader
VALUABLE	YES	YES	YES	YES	YES
RARE	YES	NO	NO	YES	YES
IMITABLE	NO	YES	NO	NO	NO
ORGANIZATION	YES	YES	YES	YES	YES

All the capabilities are valuable once they exploit opportunities and counteract threats. Regarding rareness, the rare capabilities are the bundling of resources, the constant upgrading capacity and the cognitive and emotional investment of the leader. In fact, those are not so easy to build capabilities, and they are not possible to be acquired in the market. Concerning the degree of imitability, all Dreamshaper's capabilities are hard to imitate, except the innovation orientation. In what respects the organization, all its capabilities are enabling the fully exploitation of the startup and the maximization of its potential.

To conclude, Dreamshaper's resources and in particular its capabilities enable the firm to have a sustained competitive advantage

4 - Evaluate Dreamshaper's Dynamic Capabilities and evaluate the sustainability of its competitive advantage.

Dreamshaper's capabilities are: the bundling of its resources; innovation orientation; strong networks; constant upgrading capacity and cognitive and emotional investment of the leader.

The startup dynamic capabilities are: dynamic processes and culture, adaptability and constant maximization of its strengths and minimization of weaknesses.

In this way, Dreamshaper's competitive advantage relies on two key dynamic capabilities: the harmonization and adaptability of its resources and capabilities. It does not have a disruptive idea, but it renders structural advantages. The firm's routines and processes are transforming the bundles of inputs into a competitive advantage. To conclude, Dreamshaper's resources do not grant a competitive advantage "per se". But Dreamshaper's capabilities and dynamic capabilities are valuable because they allow the firm to generate outputs, exploit opportunities and mitigate threats, more precisely by offering a high-tech innovating teaching platform, with high quality content and distinctive dynamic.

5 - According to Theories of Distinctive Competence, what are Dreamshaper's Distinctive Competences?

There are three possible approaches to distinctive competence and in the case of Dreamshaper there is evidence of the three.

First, it is possible to identify the existence of one general manager whose quality has a major impact in the startup performance. Evidence for this is the description of the CEO of Dreamshaper who is characterized as risk-taker, passionate, resistant, striving for motivating his team. Indeed, José Miguel Queimado plays a role of confidence

building in the startup. So, a high-quality manager in this case, can be perceived as an organizational strength.

Secondly, there is evidence of a link of the institutional leadership and the firm performance. The CEO of this company has a behavior of an institutional leader more than a traditional manager, once he has created, defined and constantly recalls the firm's mission. In fact, he assures that the firm's activities reflect its fundamental mission and vision. He has a symbolic strategic role in the safeguard of the firm values and identity.

Thirdly, the CEO and leader in this case, not only has a remarkable intellectual path but also reflects particular emotional investment in this firm. Indeed, it is noted that he gives the "extra mile" on a regular basis, and his investment as a leader is contributing to the maintenance and creation of an institutional work. Evidence of this is the CEO's reaction of tolerance, incentives given to its team, constant motivation through individual talks daily and reflection of sensitivity to other's subjective state. Finally, through optimism, improvisational behavior, empathy, he is able to encourage and inspire his colleagues.

To conclude, Dreamshaper counts with distinctive competences related directly to its leader in the three dimensions explored, which are a clear source of competitive advantage.

6– Evaluate the possibility of a vertical integration of Dreamshaper.

In Dreamshaper's case there is the possibility of backward vertical integrate, which means, to incorporate more stages of the value chain to be closer to the access to raw materials. The process of vertical integration decision might take into account two important variables: the level of opportunism and the role of the firm capabilities in the firm's main activity.

Regarding opportunism, this startup works mainly with one supplier, SEEGNO, a technological company responsible for the technological production of the software. In

particular evaluating the existence of opportunism, it is not the case with this supplier, which is not considered to be unfairly exploiting Dreamshaper, in an opportunistically way. Thus, opportunism is not an element considered for vertical integration and the cost of vertical integration is higher than the cost of opportunism. Moreover, no transaction-specific investment was made, therefore the vulnerability problem is not significant.

Regarding the firm's capabilities, it needs to be analyzed which are the resources or capabilities at the base of creation and sustainability of competitive advantage. Regarding the firm's resources, they are not considered by themselves rare neither hard to imitate. However, the firm's capabilities grant the majority of the profit, once they exploit environmental opportunities and resources. Thus, the startup capabilities are a source of competitive advantage. According to theorists, firms should vertically integrate into those business activities where they, in fact, own valuable, rare, and costly-to-imitate resources and capabilities. Once their outsourced activity is not at the origin of their competitive advantage, the firm should not vertically integrate.

V – CONCLUSION

After analyzing the case study, the literature review and the suggested questions, it is possible to conclude that this startup's strategy enables it to maximize profit while keeping in mind its mission, vision and core values.

In fact, this educational software has an interesting creation of a competitive advantage worth studying. "Per se" the startup's individual resources are not considered VRIO neither as a source of competitive advantage alone. However, Dreamshaper's capabilities and dynamic capabilities were, in opposition, considered as VRIO and as at the core of the competitive advantage creation.

In addition to this, distinctive competencies, namely focused on its leader, were identified as being also valuable, rare, difficult to imitate and with a major impact in the organization. Therefore, contributing to the sustainability of its competitive advantage.

Furthermore, the strategic option of vertical integration was concluded not to be beneficial, given that the sustainability of the startup relies more in their capabilities than in the control of resources.

To sum up, this constitutes an example of a platform that aims to have an impact on society and strives to be competitive as a firm.

This startup has recently entered the market, but has already set a clear strategic path to battle to succeed.

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