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A proactive approach of XY International expansion

(Direct Research Internship)

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Acknowledgments

Abstract

"A proactive approach of XY International expansion"

This work project was conducted under a Direct Research internship (DRI) that consists on an individual dissertation established on a given organization. DRI has a problem solving format to an empirical question to be addressed, «Which country has the highest potential for the next step of XY internationalization process? ».

In order to achieve the project's purpose, it was conducted a scanning process using a top-down approach over an initial list of nine countries given by XY. To do so it was developed an international scanning framework based on different domains and weights that allowed to achieve the top two countries with highest potential.

After an in depth analysis over the final set, it was recommended Switzerland as the best country to make the next step of XY internationalization in Europe.

Keywords

Internationalization | Market selection | Bold International | Information technology | Outsourcing

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1.   Introduction

The challenge purposed by XY is derived from a constant need and will of international expansion. This is aligned with the strategic goals of the company by expanding revenue sources and increase brand value and visibility. Nevertheless, internationalization drivers can be related with the ownership advantages of OLI-model as well with market and efficiency seeking objectives in order to promote risk diversification and economies of scope.

International journey began early in the XY history with the first expansion to Brazil in 2012. However, only in March 2015, with creation of the international department, XY started to look for new opportunities overseas in a more consistent and organized way. The international strategy has been focused in getting clients by offering outsourcing and nearshoring services. At the moment XY is still using a more reactive approach, following client's demands wave. Nonetheless, a more proactive approach is necessary but due to the large scope of the project and the nature of the job (it is time consuming because of the intense research), that would require an increase of human resources allocation that is not possible at the moment.

This work project came to address this need and answering to the question: «Which country has the highest potential for the next step of XY internationalization process? ». For this purpose, the project was organized in three main phases: first is an internal analysis of the company and the market. After, it was developed an international scanning framework with the aim of narrowing down the number of countries given by the company. Finally, the two top countries selected from the previous group were deeply analyzed in order to find which country would be the best one to move forward in the internationalization process.

2. Literature Review

2.1. International Business and International Market selection (IMS)

International business scholarship have indicated that internationalization is a process in which the firms gradually increase their international involvement and it is considered as a part of the ongoing strategic process (Melin, 1992). The motives for internationalization are originally linked to the eclectic paradigm of the Dunning's OLI-model. It defends that FDI can be explained by three factors: The ownership advantages of the firm (O) in supplying a specific market or set of markets over other firms; by the localization factors (L) such as existence of raw materials, low wages, special taxes or tariffs and finally by internalization factors (I) that represents advantages by own production rather than producing through a partnership arrangement: licensing or Joint-venture.

IMS aims to select the most attractive market for expansion through a process of assessing the relative attractiveness of a market set. The model moves progressively into a more in-depth analysis until it reaches the final market (Reid, 1981). Two different, traditional approaches to the IMS have been presented (Papadopolous & Denis, 1988): (1) a systematic approach, using a formalized decision process (includes assessment of target markets potential); (2) an unsystematic approach, suggesting a descriptive process that represents the way that the companies actually have been behaving when selecting a foreign country (based on factors as minimizing psychic distance[1]).

Papadopoulos & Denis, 1988 defended that the use of a Systematic IMS contributes to export success while wrong selection can lead to an unfavorable strategic position. However, several studies have argued that firms generally do not adopt a systematic approach (Cavusgil, 1985; Cavusgil & Godiwalla, 1982; Kobrin, 1979; Kobrin, Basek, Blank, & La Palombara, 1980). Reasons of this phenomena are related with: limited information-processing capacity of the decision-makers' (Piercy, 1982), difficulties in gathering relevant data (Papadopoulos& Denis, 1988) or the use of a reactive

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[1] **Psychic distance** supports the idea that companies tend to internationalize through markets where the information flow are relatively unimpeded because that increases managers understanding (P.Brewer, 2001).

approach by the firms based on an opportunistic basis (Bilkey, 1978; Bradley, 1995). Kothani (1978) stated that 83% of the SMEs enter in the first market without any research. This can lead to inappropriate market selection which normally are costly and compromise firms' international strategy and its performance.

2.2.   IMS by Business Service Firms

As XY is a services provider, it's relevant to look into certain specifications of the business model and respective implications in the internationalization process. Services trade can be conducted in several ways that might imply the movement of consumer, supplier, both or neither. This heterogenic characteristic, brings more diversity in the number of effective trade impediments, comparing with manufacturing goods since this may include regulatory and preferential requirements (Nicolaides, 1989 p.30). For example, if it's necessary movement of one of the parties during the service provision, it is necessary to remove barriers to people's mobility. Furthermore, (O'Farrell and Moffat, 1991) argued that any satisfactory internationalization framework in services firms requires to fully understand the relationships, types and modes of interaction between clients and suppliers during the service creation. Therefore, businesses services normally begins its internationalization process by staff mobility to develop face-to-face contact and mutual confidence. This initial step implies a local knowledge which requires some level of investment in form of training or acknowledge through a local partner. All the factors mentioned before will influence the International market selection. With this in mind, companies in order to reduce transactions costs tend to choose countries where there is a cultural similarity. The reasons behind are related with the lower need of services adaption in the host country and easier reallocation of personnel. O' Farrell and Moffat (1991) realized that these factors tend to be bigger barriers in services than in manufactured goods due to the interaction nature of services provision.

Lately, entry behaviors are important to be analyzed. Proactive strategies are more common in larger, manufacturing and experience companies, while reactive strategies (such as in response to clients

demands) in opposite is more frequent in smaller, service and inexperienced companies. However, since in services, resources commitment is lower, services firms tend to move progressively into a more proactive strategy as the flexibility for commitment and local knowledge increases (Patrick and Peter, 1994).

3.   Methodology

Due to confidentiality issues, company's name was omitted through the project, giving it XY name. In order to answer to the empirical question of the project «Which country has the highest potential for the next step of XY internationalization process? » it was used three dynamic blocks.

These blocks were **organized in a systematic way** where first, a deeper understanding of the core subject of the project was needed. In this first step, an exhaustive research, conversations with XY allowed to acquire a good understanding of all processes and flows. It permitted to do a deep analysis of the firm's strategic position in a global context. In the 2nd block, an external market examination was done by using a tailor-made international scanning framework to access the countries with highest potential. Having the country list provided by XY as a starting point then it was used a top-down approach which allowed to narrow down the country list to the two countries with the highest potential. To close, in the 3rd part, after an in depth analysis in the final country set, it was recommended the best market to internationalize.

In order to ensure the robustness of the project results, different types of data were collected and used different collection methods. It was obtained, **Quantitative** data (i.e. Firms and markets financial performance and indexes) as well as **Qualitative** (i.e. all the data collected from the companies websites about the products and strategic goals). In the collection process, it was acquired primary and secondary data. **Primary data** was gathered through four personal interviews and regular skype messages and email communication with the international manager of XY. Moreover it was performed two interviews, one with the head of Portugal Outsourcing Association, Guilherme Pereira and other with a very experienced manager who worked in Portugal in IT consulting/outsourcing for

a long time and now moved to France. All the interviews were performed in an informal way with pre-established questions regarding the topics to be covered. Finally, with the purpose of collecting **Secondary data** which involved cross-country data collection, internet sources were the predominant tool. Moreover, several scientific and information providers websites such as Amadeus, World bank, OCDE, Doing Business and specialized websites of the IT field .After gathering the data, it was organized and recorded with the purpose of future study. This analysis process, helped to conduct an efficient examination to find relationships and detect patterns.

4. Findings

4.1. Company's Strategic Position Analysis

4.1.1. Company overview

XY is an Information Technology (IT) consultancy firm, specialized in the delivery of technological and functional solutions to its clients. XY has a diversified portfolio which fulfil different customer needs: It development and outsourcing, mobile and digital Solutions and Information system/Infrastructures and systems administration. At the moment, XY operates in Portugal and Brazil, but it is also developing projects in markets such as Switzerland, Spain, Indonesia, Sweden and Netherlands. Furthermore, its target markets include Europe, America, Africa and Asia..

4.1.2. Service Line and Target Market profile

XY core business is IT Outsourcing. XY can provide specialists with a vast variety of competences, such as programming, database management and business intelligence. Within outsourcing there are other services extensions that have been explored by XY internationally: Nearshoring/Offshoring where the service is performed at distance and Local Outsourcing when consultants are integrated in the foreign company.

IT tasks for most of the companies are not part of their core-business so they tend to outsource it for cost optimization purposes. However this also turns IT services vulnerable to the economic

fluctuations, since it will be the first area where companies will tend to cut in down stages of the economy.

IT service companies benefit from a large customer base. In the consulting business, economic agents are subdivided in: B2B (Businesses) and B2G (Governments, public Bodies). IT consulting is transversal for all types of industries and services with bigger predominance in medium to large companies. In this segmentation two factors must be highlighted: first, bigger the company, bigger the probability of the company to internalize IT tasks. Secondly, the smaller the company is, the smaller is the financial power to pay for this kind of services.

IT service spending levels (Europe in 2013[2]) tend to be highly concentrated in Banking (23.7%), Public Bodies (22%) and Insurance (9.3%). Following European trend, XY is not specialized solely in one market and its clients are mainly from Banking, Insurance, telecommunications and Industry, in this ranking order.

4.1.3. Business-Level strategies

In IT industry companies face a multifaceted competition, competing on multiple factors: Employee skills and capabilities, security and safety, services quality, brand value/reputation, price levels and also range of services. Having this, companies tend to compete either in prices or trying to pursue a more differentiated approach based on very subjective aspects such as the ones presented above. XY denies a competition in prices betting on a policy of quick deliver, service diversification and in a high quality recruitment and retention policies in order to insure the best qualified work force.

4.1.4. Competition analysis

European market is dominated by players from different backgrounds, XY competes in the consulting firms segment. Table below summarizes the type of the competitors present in the market and respective comparative competitive advantages.

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[2] Sopra Steria (Press release 2013)

Types of Competitors	Competitive Advantages	e.g.
Multinationals: integrated technology corporations	Integration (Hardware, software and services, etc.)	IBM
Small to Medium-sized specialized service and solutions providers	Specialization in geographic markets, industry segments or services types	Atos
It departments of large telecoms	Insourcing, integration	BT
Off-shore service providers (i.e: from India)	Lower cost for similar services	Infosys
Consulting Firms	Know-how and capabilities related to consulting services	Accenture

Table 1: Types of competitors

Furthermore, in order to conduct a deeper analysis of the direct competitors of XY (referenced by XY) it was used the *Strategic Group Analysis Framework*. The two dimensions selected were: level of international involvement[3] and breadth of the services offer [Appx.1]. In the figure below is showed the relative positioning of each company for the two dimensions.
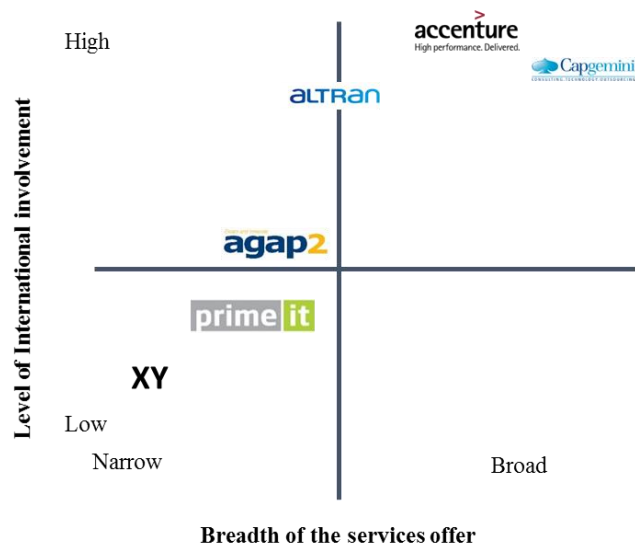
Figure 1: Strategic Group Analysis

Some conclusions can be taken: First, Services diversification increases with the company's size and international involvement. Lastly, XY still is a small player with a low level of international commitment and diversification.

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[3] International involvement used by a company should represent the level of resource(s) (such as financial, human, technological etc.) commitment a company has made to internationalization along with the desired level of control, profitability and risk company is willing and able to assume. Different types of International involvement can be: direct exporting and wholly owned subsidiaries.

Lastly, looking for the competitive arena and business level strategies, can be affirmed that in this industry, very different competitors with very different competitive advantages compete on multiple factors increasing the overall competition level.

4.1.5.   Competitive Environment

In order to analyze the competitive environment it was used *Porter's 5 Forces*.

Analysis	Force	Description
New Entrants	**High**	Low barriers to entry increases the rivalry in the market
Initial Investment		It is not necessary a big scale or physical presence to enter in the market. Smaller players and offshoring companies have experienced growth.
Brand Awareness		Price is an important decision factor however with the increasing global offer, brand recognition can highly affect the final choice.
Economies of Scope		IT consulting provides diversified services and each consultant can perform multiple services.
Substitutes	**High**	IT Services are quite homogenous and substitutable
Availability of close substitutes		IT services are fairly substitutable. With the reduction of contact barriers through new technologies, the threat from low cost offshore locations have increased.
Buyer Power	**Medium /High**	Even with large customer base and low internalization threat, buyer still has bargaining power to negotiate prices
Switching Costs		IT services are relatively similar so price tend to be a key deciding factor. Switching costs are medium level since from one side there is few information transparency about prices and conditions (requires a direct contact) from the other side contracts are non-exclusive.
Buyer concentration vs Volume		Costumers range is well diversified and large but IT outsourcing spending is still concentrated in some sectors such as Insurance and Baking.
Internalization of IT tasks		Outsourcing is aligned with the present competition forces of reducing costs and eliminating non-core activities. Moreover, backward integration threat only increases with the size of the company.
Supplier Power	**High**	Human capital represents a key factor in this market, lack of availability is a big problem that companies are facing.
Forward integration		There are diversified companies such as IBM that are able to provide fully integrated solutions. However, this only happen in very large companies.
Human Capital Availability		Employees with appropriate technical knowledge and expertise are key for the success. Moreover, with shortage of human capital, competition between companies for IT experts have been high.
Intensity of Rivalry	**High**	Multi-faceted competition, moderate entry barriers, a broad variety of both local and overseas competitors.
Demand		Growing demand is powered by the constant development of new technologies and increasing global network.
Competition		The market is highly fragmented with a huge number of global, regional and local providers that compete on a non-exclusive basis.

Table 2: Porter's 5 Forces

The analysis result is clear, the intense competitive rivalry existent in the market is a consequence of the combination of the four remaining forces: low switching costs, limited product differentiation, buyer bargaining power and skill labor at premium.

4.1.6. Portuguese Market

According to Informa consulting sector report, after four years of continuous decreasing, in 2014 Portuguese consulting market had a growth rate of 1.1% with an annual turnover of 1.365 million euros where IT segment had 1.8% growth (1.125 million euros of turnover). Furthermore, outsourcing sector had a positive growth of 7%, this value was confirmed by (APCC)[4] which announced that in 2013, 72% of the companies contracted outsourcing services and in 2014 the number grew to 83%. Increasing demand for outsourcing services is a general trend aligned with the current competitive dynamic. The competition in the market is fierce, the five biggest companies have 36% of the market (ten biggest 50%)[5] and the remaining part of the market is highly fragmented by small players increasing the overall competition.

4.1.7. European Market

Europe is the second largest IT service market in the world with 30% of global IT expenditures. It is estimated to be worth $48.2 billion with a positive outlook, in consequence of large technology trends such as social media, mobile and cloud[6]. In Europe, UK is the largest European market, other major markets are Germany, France and Benelux Countries. IT services spending in Europe is geographically concentrated, and often positively correlated with structural indicators such as corporate Broadband and internet access or investment in R&D[7]. Similarly to Portugal the European market is characterized by an intense competition at the top and end of the market. High fragmentation

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[4] APCC- Associação Portuguesa de Contact Centers
[5] MarketLine
[6] Consultancy.uk
[7] Xerfi Global, Report: "IT Service Groups- Europe"

(top 10 players are about 30% of the market), great range variety of players and increasing pressure from low-cost overseas rivals (i.e.: India) increases the rivalry in the market.

4.2.   SWOT Analysis

Strengths(S)	Weaknesses(W)
• **Portugal Geographic position:** European free mobility; Advantageous Time zone for nearshore/offshore services; • **Human resources availability and qualification:** Availability of qualified work force; Portugal ranks positively in terms of technical (ITC) and languages competences • **Customer Relationship management:** Large team of managers that ensures individualized assistance to each client; • **HR Policies:** Awarded as a "Great Place to Work in Portugal". • **Financial stability** with high growth prospections • **Labor costs -** Portugal is very competitive regarding the joint indicator of gross wages and unit labor costs.	• **Financial Resources:** Limited financial resources, in a comparison basis. • **Human Resources:** high turnover and dropout rate. • **Highly diversification** of the portfolio which leads to lack of expertise • **Reduced/inexistent brand visibility abroad** • **Low market share** • Portuguese business network and intellect is not recognized abroad
Opportunities(O)	**Threats(T)**
• **Growing market** (Global It Consulting & other services market anticipated 3.8% CAGR for the five-year period 2011 - 2016, driving $652.5 billion by the end of 2016.) • Skilled worker shortage abroad[8] • **Demand from Richer economies** than Portugal with purchasing power (Sweden, etc.) • As the globe becomes increasingly networked and mobile, new markets open up (i.e: Cloud computing/services)	• **Competition in the European market** is fierce due to the fragmentation and increasing pressure from offshoring. • **Labor skills improvement from Central and Eastern Europe** will increase competition and threat Portuguese cost advantage. • **Volatile and uncertain** economic conditions • **Cultural/Language barriers** to the service provision

Table 1: SWOT Analysis

SWOT analysis helped to put all pieces together in order to evaluate if XY has or not conditions to continue pursuing its international involvement. Having in account the comprehensive analysis done over this first phase, XY has what it takes to keep its international strategy. Excellent financial

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[8] 2015 Talent Shortage Survey (2015). *ManpowerGroup Publishing*

performance of the last years (Turnover of 4,7M and 8,4M euros in 2013 and 2014 respectively) and a clear competitive advantage in all dimensions of human capital. It gives the necessary strengths in order to boost market opportunities and overcome its weaknesses and threats.

5. International Market Scanning

Over the initial country list given by XY (France, Belgium, Luxembourg, Netherlands, Germany, Switzerland, UK, USA and Sweden), it was constructed a scanning tool to analyze and score the countries based on their attractiveness and potential.

5.1. Metric

The first step was to select the parameters for the scanning process. Having this, five main domains were selected: Business environment (BE), Economic (E), Technological (T), Social-Cultural (S) and Legal (L). In each of them were selected different indexes [Appx.2]. Each index was given a score from 1 to 9 (1: lowest potential contributor; 9: Highest potential contributor) and it was used a weighted linear sum of the variables values. This means that the values of each index were multiplied by the number that reflected its relative importance (the "weight"), and then these simple products were added up. The resultant sums were calculated for each market and then compared, higher values will correspond to "better" markets. $\boldsymbol{Equation}: M1 = W1 * X1 + \cdots + W20 * X20.$

"M" is the resultant sum for a specific market, "W1" is the weight for parameter 1 and X1 is the value of parameter 1 for that specific Market, and so on. [Appx.3].

5.2. Country Evaluation Results

After applying the evaluation criteria described in the previous section, the results were:
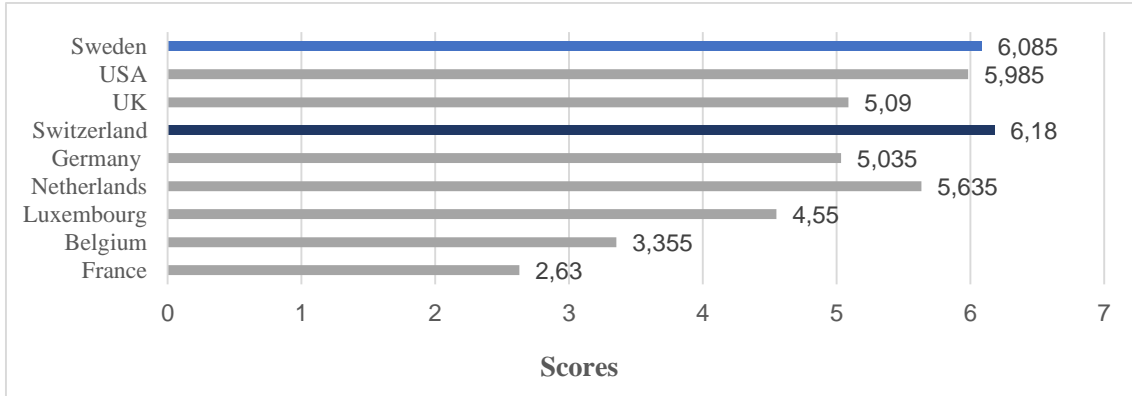
Scores

Figure 2: International Framework results

The top three countries scores are really close to each other but Switzerland (CH) and Sweden (SE) respectively, ranked first. Besides the results, XY preferred to change the second country to France (FR) since is one of the markets where they are moving in.

6. In depth Market Analysis and Target Market Selection

During this section, in order to ensure a more pragmatic approach, the two countries selected will be analyzed focusing solely in one of the XY services offers, Software development (SD). The reasoning behind is: first it is where XY has bigger availability of consultants and expertise, secondly is the segment that has been showing higher demand from the countries where XY is already present.

6.1. Market and Company sales Potential

$$Total\ market\ Potential\ (TMP):\ [Number\ of\ potential\ constumers] \times$$
$$[Annual\ frequency\ purchasing\ basis] \times [Selling\ Price]$$
$$Company\ Sales\ Potential:\ [TMP] \times [Desired\ Market\ Share(\%)]$$

In order to calculate TMP, information regarding companies' number for each country, in industry and services sectors was gathered. From the sample, microenterprises were excluded because they don't comply with the target profile. The customer base was segmented in three groups having in account the number of employees: Very Large (>249), Large (50-249) and Medium/Small (10-49).

For each fragment it was attributed a different weight that corresponds to the probability of each group to purchase[9], 40% to Very large (VL), 50% to Large (L) and 10% to Medium/Small (M/S).

	VL	40%	L	50%	M/S	10%	Σ *Total*
CH	1.241,00	496,40	6.819,00	3.409,50	34.595,00	3.459,50	7.365,40
FR	243,00	97,20	4.959,00	2.479,50	137.534,00	13.753,40	16.330,10

Table 2: Costumer base distribution
Source: Institut national de la statistique et des études économiques- INSEE & Confédération Suisse

Annual frequency purchasing corresponds to the number of consultants that client's contract to XY. This variable is dependent of the client's satisfaction in first service provided. If the project went well, normally the client can ask for more four consultants. Furthermore, the final price of each contract is dependent of two variables: level of the consultant experience and length of the contract. The consultant's category are organized in: Junior and Medium-Seniors where prices vary in each category. In FR, the prices are from 480€ to 600€, respectively for each consultant category. Since in CH, XY is not present yet, an estimation of the price was made where the result was 797€ and 878€, respectively [Appx. 4]. More, 90% of the XY consultants are medium-seniors, while only 10% are juniors. The project length also varies but on average the range is between three to six months[10]. Having this, a scenario analysis was performed where a normal, pessimistic and optimistic scenarios were considered. On this analysis, two variables varied: purchasing frequency and project length. Demand distribution for each of the consultant's categories was kept constant in all scenarios. More, since XY didn't know its desired market share (%) it was calculated based on the actual market share in the Portuguese market. For that, it was used the total market value generated in IT consulting[11], 1.125 M€ and XY turnover in same year, 8.4M€ which gave a market share about (≅ 0.7%).

	Pessimistic	Normal	Optimistic
Purchasing frequency	1	3	5
Junior consultants		10%	
Medium- senior consultants		90%	
French price per month *	12936	38808	64680
Swiss price per month*	23916,72	57400,21	119583,76

[9, 10] Information provided by the company, XY

[11] Informa D&B

Project length (Months)	3	6	9
Desired Market share		0,007	
Average total price (CH)	71750,26	344401,23	1076253,84
TMP: SW	528.469.335,31	2.536.652.809,50	7.927.040.029,68
CSP	3.945.904,37	**18.940.340,98**	59.188.565,55
Average total price (FR)	38808	232848	582120
TMP: France	633.738.520,80	3.802.431.124,80	9.506.077.812,00
CSP	4.731.914,29	**28.391.485,73**	70.978.714,33

Table 3: CSP
*number of working days= 22

6.2.   Competitors Analysis

Two companies considered by XY as direct competitors were analyzed for each of the markets [Appx.5]. Where companies X, W, Z have the same core business (computer consultancy activities) and Y has temporary employment agency activities. In this analysis were considered six dimensions and then companies were ranked from first to third positions, using XY as a comparison basis [Appx.6]. In CH, XY was positioned in last position and in FR in the second place, in both as expected, brand awareness was the weakest factor for XY. Doing a more detailed analysis in each of the competitors, there are some strategic moves and characteristics of each of the competitors that should be highlighted: Company X and Z are creating nearshoring/offshoring locations in countries where they can find cost advantages. Company Y is an example of a multi-faceted company that used its capabilities and resources from its core business (recruiting services and pool of talent) to expand its services offer into outsourcing. Finally company W is still a small company but highly specialized which slowly is expanding its services offer. From this sample XY can have picture of the type of competition will have to face: multi-faceted companies with global presence and high financial strength that are expanding for strategic locations where the XY cost advantage can be threaten, and finally smaller and highly specialized companies.

6.3.   Operational Costs

In the case of sending consultants abroad, to attract talent, XY pays the initial accommodation costs (two weeks) and a monetary daily compensation "per diem" for the difference in cost of living. This compensation is a fixed amount that has been varying between [70-89]€ depending on the country

and consultant's experience. Also, other factors such as: different currencies and the time spent of a manager on procurement, bureaucracy and logistics must be considered. In this context it was analyzed four main domains that might influence the final operational costs: hotel price, living costs, process complexity of sending a consultant abroad and possible impact of foreign currency.

From the **Hotel price Index[12]** in CH is more expensive with an average price of 195€ while in FR is 147€, in 2014. Using 2015 **Cost of living City Rank** from Mercer[13], Zurich, Geneva and Bern (the three main cities in CH) are in the top of the list: 3rd, 5th and 9th position respectively. In France, Paris appears in 46th position and Lyon is the 147th after Lisbon in 145th position. Since FR is a member of European Union and part of the Euro zone, there are no barriers in labour mobility and currency issues. In CH is different because it is only part of Schengen space. When a European citizen stays longer than three months it needs a residence permit. This process must be done within fourteen days of arrival and has a negligible cost of 20€. Lastly, although until now all contracts are being done in euros in the future that may change. In that case, XY will be prone to currency fluctuations. Historically, Euro has been stronger which represents a disadvantage in case of the contracts being in Swiss Francs[14].

6.4.   Cultural Openness/Fit

One of the biggest barriers in outsourcing services are still culture. In order to evaluate in which country there is a bigger fit, factors like: English language proficiency, cultural proximity and current cultural diversity/homogeneity were analyzed.

Using **EF English Proficiency Index[15]**, Switzerland proficiency level is high in 17th position while France has a low level, ranked in the 37th position. **Hofstede centre tool** allow to evaluate the cultural

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[12] Hotel Price IndexTM (HPI®)
[13] Mercer's authoritative Cost of Living Survey, one of the world's most comprehensive, is designed to help multinational companies and governments determine compensation allowances for their expatriate employees. New York is used as the base city, and all cities are compared against it.
[14] XE Currency Charts (CHF/EUR) for 10 years. *XE.com* http://www.xe.com/currencycharts/?from=CHF&to=EUR&view=10Y

[15] Education First, EPI AF English proficiency index; Link: http://www.ef.edu.pt/epi/

proximity and fit [Appx.7]. From that, can be conclude that Portuguese culture is closer to the French one with special focus on Power Distance, Uncertainty avoidance and indulgence. This cultural proximity helps in the client relation and future integration of a Portuguese consultant on the foreign company. Current cultural diversity in each of the countries is also a good indicator on how used to the population are to relate and accept people from different backgrounds. A study conducted in **Harvard Institute for Economic Research: "Fractionalization"[16]** reveals that in comparison terms CH has bigger Ethical diversity than FR. Finally, there is an important aspect that should be highlighted. Portugal has being known only for tourism activities, business network and Portuguese intellect is not recognized abroad. This perception, affects negatively Portuguese service companies' performance abroad, making the entry stage much harder.

6.5. Final Results: Target Market Selection

Considering all the factors mentioned in the previous section, FR ranked first with a score of 3.5 while CH got 3.31. In order to compute it, for each group was address a weight: CSP (35%), Competition (25%), Operational Costs (5%) and Cultural Openness/Fit (35%) [Appx.8]. Weights represents the relative importance of each factor for the future company's profitability. For example, operational costs only got 5% because it doesn't have a significant impact on profit margin since contract prices are already adjusted to it.

7. Conclusions & Recommendations

In sum, this project provided a framework that will allow XY to analyze future opportunities by helping managers to organize and gather relevant data. Over the first phase, it was analyzed if the company should or not to continue its internationalization process based on its intern resources and

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16 Fisher, Max (2013), A revealing map of the world's most and least ethnically diverse countries. *The Washington Post* https://www.washingtonpost.com/news/worldviews/wp/2013/05/16/a-revealing-map-of-the-worlds-most-and-least-ethnically-diverse-countries/

market opportunities. The conclusion it was positive since the company have been shown a very good performance in the internal market and has a clear competitive advantage to present in the international market. Methodology used in rest of the project, allowed to focus attention in the most important countries by narrowing down the country list for two main countries.

Analyzing the final result, FR ranked first but with a small difference from CH. Given this, the final decision must be based on small details and a good use of critical thinking. First, since linguistic barrier might prevent service performance, XY should look for bigger and international companies where English level is expected to be better. However, the bigger the company the harder is for an unknown Portuguese company to set an agreement so in a first stage without a contacts network, only the medium-small companies remain (where French speakers consultants will be imperative). Concluding, in opposite to the final result I suggest to go to Swiss market with a local partner in order to overcome the initial brand ignorance. CH is the country with the biggest proportion of big companies and where English proficiency is higher.

In response to report findings over the three phases, a list of recommendation was developed. From the first phase, XY has strong advantages that can use to grab opportunities abroad and expand its operations. To do so, XY should find the right partner which should comply with the four dimensions of fit framework where strategy and resources should be complementary and organization structure and culture compatible. These partners can be either similar companies that need consultants or other companies that are in the upstream side of the IT value chain and so XY services could be an extension of their services portfolio. In order to overcome cultural/language barriers present in the target market, a head of each country should be assigned. Moreover, consultants should be allocated to a certain country or set of countries where specific training should be offered (i.e. Language courses). Finally, XY should customize a service portfolio for each country which would ally XY expertise and availability with the specific market demand. This way it will allow XY to define its strategic position and communicate a clear image of its strengths to foreign clients.

8.   Limitations and Future research avenues

This kind of research can have many pitfalls, as (O'Farrell and Moffat, 1991) argued, to have satisfactory internationalization framework in services, fully understanding of the relationships, interaction between clients and suppliers is key. Though, much of this information only can be collected in the field or through partners knowledge sharing. Having this, next step is to think about «Which mode of entry should XY use?» and develop a local contacts network that will help in this new stage. Moreover, among the research limitations, is the high sensitivity of the scanning process. Varying slightly the weight for each domain will affect immediately the final result. Other limitation is the restricted data used to compute CSP. Ideally in the CSP assessment, to ensure the best valuation possible, 80/20 rule[17] should have been used and so only the main sectors should be considered (such as: Insurance, Healthcare, etc.). Due to the deficiencies of secondary data availability, the way the CSP was calculated can lead to biased results. This could be overcome by a detailed analysis in each of the sectors for each country, asking directly to the local associations to obtain the information. Finally, since cultural fit/openness is one of the biggest barriers of outsourcing abroad and indexes available are limited, a further research on this field should be performed. For instance, surveys/questioners that could test the cultural intelligence of each country would bring a significant add value.

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10. Appendix

Appendix 1: Strategic Group Analysis

Firm	Countries Presence (with local office)	Type of international involvement	Breadth of the Services offer (Industries)
BI	PT,BR	1 WOS in BR DE (Several countries)	IT; Media & Entertainment
Prime IT	PT,UK, FR	2 WOS DE (Several countries)	IT, Telecom; Energy; Infrastructures
AGAP 2	PT, BE, FR, ES, CH, UK, DE, NE	7 WOS DE (Several countries)	IT; Pharma; Energy; Infrastructures & Transports; Chemistry
Altran	MANY	Many WOS DE (Several countries) Several Partnerships	IT; Pharma; Energy; Infrastructures & Transports; Telecom; Media
Capgemini	MANY (>40)	Many WOS DE (Several countries) Several Partnerships	16 Industries
Accenture	MANY (>53)	Many WOS DE (Several countries) Several Partnerships	15 Industries

Legend: Countries: BE: Belgium; BR: Brazil; CH: Switzerland; DE: Germany; ES: Spain; FR: France; NL: Netherlands; PT: Portugal; SE: Sweden; USA: United States of America; UK: United Kingdom; **Type of international Involvement:** DE: Direct Exporting: Outsourcing and Nearshoring Services abroad; WOS: Wholly Owned Subsidiary

Appendix 2: Index selection for the International Framework

Indicator	Description
Business Environment (BE)	
BE1: Doing Business Ranking	It focus on regulations that affect domestic enterprises, operating in the largest business city of an economy, across 10 areas, such as: starting a business
Economic (E)	
E1: GDP per Capita	GDP per capita is gross domestic product divided by midyear population.
E2: FDI, Net Inflows	(USD billion); FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy.
E3: FDI, Outflows	Outflows of FDI means that it is "exporting money" to "buy" or "build" foreign productive capacity, whose ownership will remain in the first country's hands.
E4: GDP Growth	(Annual %); A measure of the rate of change that Gross Domestic Product (GDP) experience from one year to another.
E5: IT (Value Added)	Value added of IT and other information industries;
E6: Services, etc., Value Added	It includes value added in wholesale and retail trade, transport, and government, financial, professional, and personal services such as education, health care
E7: Industry Value Added	It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas.
Technology(T)	
T1: Networked Readiness Index 2015	The Global Information Technology Report provides a comprehensive assessment (from 143 economies) of networked readiness, or how prepared an economy is to apply the benefits of (ICTs) to promote economic growth
T2: Internet Usage Penetration	(% of Pop. with Internet); An Internet User is defined as an individual who has access to the Internet at home, via computer or mobile device.
T3: Secure Internet Servers	Secure servers are servers using encryption technology in Internet transactions. E-commerce and financial transactions require it in order to ensure data security.
T4: Gross Domestic Spending on R&D	(Total, % of GDP, 2000 – 2013); current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge
T5: Fixed broadband subscriptions	Fixed wired broadband subscriptions include the total number of subscriptions to broadband technologies.
T6: Wireless Mobile Broadband Subscriptions	(Total, Per 100 inhabitants) Broadband access refers to technologies that provide access to the internet. Wireless broadband penetration technologies correspond to satellite, terrestrial fixed wireless, as well as terrestrial mobile wireless.
Social-cultural (S)	
S1: Consumer Price Index	Examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
S2: Average Wages	The total remuneration, in cash or in kind, payable to all persons counted on the payroll, in return for work done during the accounting period
S3: English Speakers %	% Of population that is able to have a conversation in English
S4: Graduates in Science and Technology	It includes new tertiary graduates in a calendar year from both public and private institutions completing graduate and post graduate studies.
Legal (L)	

L1: Enforcing contracts (Ranking)	Measure the efficiency of the judicial system in resolving a commercial dispute.

Appendix 3: Parameter's weights for the International framework

BE	W	E	W	T	W	S	W	L	W
BE1	8%	E1	4,0%	T1	9,0%	S1	2,5%	L1	2,5%
		E2	3,0%	T2	4,0%	S2	8,0%		
		E3	3,0%	T3	5,0%	S3	8,0%		
		E4	4,0%	T4	6,0%	S4	5,0%		
		E5	5,0%	T5	5,0%				
		E6	8,0%	T6	5,0%				
		E7	5,0%						
Total	8%		32%		34%		23,5%		2,5%

Appendix 4: Estimation of Prices in CH

	Software Developer Salary (€)	PJ	PMS	Difference PJ-PMS	APD	APD/Salary
FR	36600	480	600	120	540	0,0148
BE	32691	450	550	100	500	0,0153
NL	39539	480	600	120	540	0,0137
PT (Lisbon)	17717	176	240	64	208	0,0117
Average				101		0,0139
CH	75512,62	996	1097		1047	

JP: Junior Price (per day)**; SMP:** Medium-Senior Price (per day); **APD:** Average Price (Per day);

In order to estimate prices that XY could practice in CH, first it was analysed if there was or not a relation between Software Developer salary and the APD. From the table above we can conclude that based on the countries where XY is present (and its prices) seems to exist a proportional relation between variables. Basing on this average proportion APD was estimated for CH using the respective average salary, 75512,62 €.

Solving Equations:

$$\mathbf{1)}\ 0.0139 * 75512.62 = 1047$$

$$\mathbf{2)}\ \frac{PJ + PSM}{2} = 1047; Where\ PJ = PSM - 101 => \frac{PSM - 101 + PSM}{2} = 1047 => PSM = 1097\ and\ PJ = 996$$

However, after a conversation with an experienced manager working in Paris, he confirmed that prices in CH would be higher than in Paris, around 1000€ but since XY is not recognize by local companies, it would have to play with prices and so a price discount should be incorporated. Having this, in order to approximate prices to France a discount of 20% it was used, achieving final prices of 797 for juniors and 878 for medium-seniors.

Appendix 5: Competitors Analysis

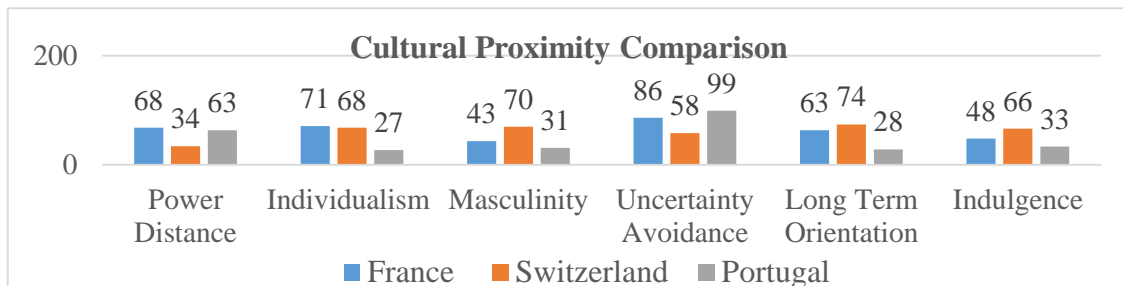|	Brand Awareness in the respective market	Company Size **No. Workers**	Financial Strength **Group Turnover**	Services Diversification **Industries**	Vertical(V)and Horizontal (H)integration	International Involvement
XY	• 100% Portuguese • +70 clients (PT & abroad)	>350	8.4M €	• IT • Media & Entertainment	• V: Information & Infrastructures • H: Digital Marketing; Mobile Solutions	• 1 WOS in Brazil • Direct Export (Several countries)
Switzerland						
X	• 100% Swiss • +100 clients	>400	[50-100]M €	• IT • Media & Entertainment	• V: Technology & Infrastructures • H: Systems Integration; Branding & Interactive Marketing	• WOS: Lausanne, Hong Kong, Prague, Lisbon and Malta
Y	• American company (+400000 clients) • In Switzerland since 1960 + 2000 Clients	>400	19B € SW[443 M €]	• Employee outsourcing, • Employee consulting	Unknown	• 3,900 offices in over 80 countries
France						
Z	• 100% Luxembourgish • Francophone Brand	>20	389 Th €	• IT (PHP programming and Zend Framework)	• V: Coaching & Training	• 1 WOS in France
W	• Belgium origins • (Francophone Brand)	4069	340.9 M €	• IT • Telecom • Media • Industry • Energy	• H: Dataflow; ELAN GmbH Group; Mobytech; VisionIT media; Crosscheck; Pentasys	• 11 WOS all over the world (Europe, USA, India and North of Africa)

Legend: WOS: Wholly Owned Subsidiary

Appendix 6: Competitor's analysis Ranking

Comparison criteria	COMPETITORS							
	Switzerland				France			
	1st	2nd	3rd	BI Ranking Position	1st	2nd	3rd	BI Ranking Position
Company size	X	Y	BI	3rd	Z	BI	W	2nd
Financial Strength	Y	X	BI	3rd	Z	BI	W	2nd
IT Services Diversification	X	BI	Y	2nd	Z	BI	W	2nd
Vertical and Horizontal integration	Y	BI	X	2nd	Z	BI	W	2nd
International Involvement	Y	X	BI	3rd	Z	BI	W	2nd
Brand Awareness	Y	X	BI	3rd	Z	W	BI	3rd
BI's Position				3rd				2nd

Appendix 7: Hofstede centre tool for countries comparison

Cultural Proximity Comparison

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long Term Orientation	Indulgence
France	68	71	43	86	63	48
Switzerland	34	68	70	58	74	66
Portugal	63	27	31	99	28	33

Appendix 8: Final Results: Highest Potential Country Selection

	Evaluation criteria (scale 1-5)	
Cultural Fit Proximity	Switzerland	France
English Proficiency	5	1
Cultural proximity and fit	2	3
Cultural Diversity	4	3
Average Rank	3.67	2.33
Operational Costs		
Hotel Costs	2	3
"Per diem" compensation affected by the cost of living	1	3
Resident permits and currency exchange issues	4	5
Average Rank	2.33	3.67

Final Scores					
Variables	Weight	Switzerland	France	Switzerland	France
CSP	35%	4	5	1,4	1,75
Competition	25%	2	3	0,5	0,75
Operational costs	5%	2,33	3,67	0,1165	0,1835
Cultural Openness/Fit	35%	3,67	2,33	1,285	0,82
Total	100%	12	14	3,301	3,499