Closer: The Challenges of Evalyze's Future

Iara Sobral

Dissertation written under the supervision of Nuno Magalhães Guedes

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Abstract

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Author: Iara Marlene da Silva Sobral
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Closer was a data science company with three business units – consulting, outsourcing and nearshoring. The company ultimate goal was to be on the edge of innovation. Consequently, a huge investment was made in a new product, Evalyze. Evalyze was a software using Artificial Intelligence algorithms, for the optimization of contact centers' operations and with high levels of efficiency and productivity.

Evalyze required a total investment of 4 million euros and was facing implementation challenges as clients had to be convinced to switch from the software they had installed.

Therefore, Closer was facing the dilemma of continuing investing in Evalyze or divest the product and focus on its other business areas. If continuing investing in Evalyze, the company was confronted with the options of whether or not to obtain external funding and expand internationally.

This Thesis aimed to analyze how Closer should manage its business portfolio, guaranteeing the sustainability of the company and Evalyze's growth. For this purpose, besides the Case Study, the Dissertation includes a Literature Review, providing insights about the industry and different growth strategies, and a Teaching Note that addresses relevant issues for the analysis of the Case Study in strategic management courses.

Resumo

Titulo: Closer: Os desafios do futuro do Evalyze
Autora: Iara Marlene da Silva Sobral
Palavras-chave: Inovação; Crescimento; Desinvestimento; Internacionalização

Closer era uma empresa de Data Science com serviços em 3 áreas – consultoria, outsourcing e soluções. Tendo como maior objetivo inovar, realizou um grande investimento num novo produto, Evalyze. O Evalyze era uma plataforma que usava algoritmos de Inteligência Artificial, destinado à otimização de operações em centros de contato e com elevados níveis de eficiência e produtividade.

O Evalyze exigiu um investimento de 4 milhões de euros e estava a enfrentar desafios com a sua implementação, dado a necessidade de convencer os clientes a mudar das plataformas que já tinham instaladas.

Desta forma, Closer enfrentava o dilema de continuar a investir no Evalyze ou desinvestir o produto e focar-se nas outras áreas de negócio. Adicionalmente, no caso de continuar a investir no Evalyze, a empresa teria que ponderar sobre obter financiamento externo e expandir internacionalmente.

Esta Tese tem como objetivo analisar como deve a Closer gerir o seu portfólio de negócios, garantindo a sua sustentabilidade. Para este fim, para além do Caso de Estudo, esta Dissertação inclui uma revisão de literatura, com informações sobre a indústria e diferentes estratégias de crescimento e uma Nota Pedagógica, que aborda aspectos relevantes para a análise do Caso de Estudo no âmbito de disciplinas de gestão estratégica.

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Case Study

The first of October 2019 was a warm day in Lisbon, Portugal, and Fernando Matos, one of Closer's partners, was in the conference room discussing with his team what should be their next move.

Founded in 2006, Closer was a data science company, present in 5 countries, which provided services of consulting, outsourcing and nearshoring, specialized in Business Intelligence, Artificial Intelligence (AI), and Advanced Analytics. In 2018, it had revenues of 8 million euros.

Within the company's continuous high investment effort throughout the years, Evalyze was a software solution that had been developed to be outsourced. It was a management platform aimed at automating and optimizing contact center operations through AI algorithms.

After a whole investment of around 4 million euros, by 2018, Evalyze 4.0 was developed. Commercialization of the product was successful, but it was hard and time-consuming to implement.

Given the need for continuous investment in new versions for Evalyze, to always be on the edge of innovation, Fernando and his team were at a critical decision point. Should they continue investing in this solution with the risk of never seeing a substantial profit? Or should they just spin-off the software?

Company Background

Closer was created in 2006 when Fernando Matos and João Cruz decided to found their own company of data science consulting. The two founders started the company with their own capital and later, in 2008, a third partner joined, Woitek Szymankiewic.

Fernando graduated in Computer Science and Business Management, was the president of the Data Science Portuguese Association and had 22 years of experience in IT, management information, software development, system integration, mobility, cloud computing, and digital signage. João, Ph.D. in Physics, was a researcher at the Centre of Theoretical and Computational Physics of the University of Lisbon, the vice-president of the Data Science Portuguese Association and had more than 20 years of experience in consulting, IT, big data, and machine learning. Woitek graduated in Mechanical Engineering and Business Administration, in Germany, and had more than 15 years of international experience as a consultant and engineer.

Initially focused on consulting, Closer's first clients were companies linked to the financial sector, with which the two initial partners had worked previously, such as Banco Português de Negócios, Caixa Geral de Depósitos, Banco Espírito Santo, and Deutsche Bank.

With the mission "To Challenge Complexity", Closer invested strongly in Research and Development (R&D), at the rate of about ⅓ of the company's results, aiming to offer its clients different approaches and new perspectives in three core areas – Data & Intelligence, Technology, and Business.

Data & Intelligence included projects and solutions designed with AI, advanced analytics, business intelligence, and visualization. In the Technology field the projects were directed to mobility, with the building of secure and efficient business apps; to cloud computing, that guaranteed availability and scalability for solutions; to software engineering, with tailor-made solutions for businesses; and to AI automation, with the integration of AI components in clients' applications. Regarding Business, Closer's aim was to improve performance, engagement, efficiency, and effectiveness of the business, being present in different fields, such as sales effectiveness, risk management, productivity, and loyalty.

In addition to consulting, the investment in R&D allowed the company to start outsourcing specialized IT professionals to clients in 2008. The outsourcing of software development began in 2014.

Providing services in three different areas – consulting, outsourcing, and nearshoring – the company offered what the clients needed to stay flexible, addressing not only quick-win projects but also implementing software solutions to manage project risks and satisfy long-term operational and business intelligence needs.

In the consulting area, quick-win projects customized to each client were offered, with innovative tools and technology in order to provide the client with the best fit and the results needed. The majority of the projects were focused on Business Intelligence, Risk Management, Compliance, Cloud Computing, Mobility, Big Data, and Social Networking.

The outsourcing area provided the clients with highly qualified IT experts. A continuous recruitment of the best consultants allowed the company to offer regular support to its clients, with flexibility and expertise whenever and wherever they needed it.

Finally, the nearshoring area was about outsourcing software development. This area comprised two big products – Presentime, a solution that transformed conventional TV or Billboards into remotely manageable displays, and Evalyze, a solution to optimize operations in contact centers. Hence, clients could have quick-win solutions and long-term partnerships, in which not only a successful project execution was ensured but also customer satisfaction was guaranteed, with a very close customer care and support at any time.

There were few service companies that could be, at the same time, product companies, due to the different mindsets and the difficulty for employees to transfer between different areas. Even so, Closer intended to be present throughout the value chain. With projects that worked well and which were replicated to more clients, products with a more efficient performance were developed. Therefore, these different areas of work were not only useful to clients but also allowed Closer to gain experience in Data & Business Intelligence related projects and to apply it in creating software applications.

By 2018, the company had a wide range of national and international companies in its client portfolio (Exhibit 1). The company turnover, in 2018, increased by 25%, in relation to the previous period. This increase was a result of the significant growth in consulting services. Despite being the most demanding area, it was also the one with a major growth relatively to the previous period, providing the best EBITDA. During that year, the number of consultants allocated to the area almost duplicated. Outsourcing went through a slump, due to the increase in competition. Yet, it was the area with higher revenues, yielding a positive EBITDA margin. Due to the slump, it was reorganized, being expected to start growing again in 2019. Nearshoring, which was still being developed, started giving initial signs of success but still required higher investments, delivering a negative EBITDA (Exhibit 2).

Throughout its journey (Exhibit 3), Closer looked forward to grow not only with projects in Portugal but also internationally. The first projects abroad were in Mexico and Norway in the second year of operations. In 2013 the company opened offices in the UK and Brazil, in 2016 in Macedonia, and in 2018 in Hong Kong (Exhibit 4).

Red Zebra Analytics, a UK company that created a new type of loyalty program, with a 3D platform where merchants placed cash-back offers in the digital banking environment to the final consumers, was acquired in 2014.

By 2019, Closer had a headcount of 237, including one in each of the UK and Hong Kong representative offices, 4 in Macedonia, and 9 in Brazil. The remaining 222 employees worked from Portugal. Closer's team included experienced and talented technological experts, with knowledge from different areas, such as physics, economics, management, computer science…

Even though the company was present in different countries, it was not providing services in all offices. In Macedonia, the focus was on R&D of software. In Hong Kong, the office was recent so there were no operations there yet.

In 2018, the company registered revenues of, approximately, 4.8 million euros in Portugal, 1.7 million euros in the European Union, and 1.3 million euros in the other markets.

Throughout the years, Closer had been able to remain technology independent and to attain expertise in several tools and frameworks. Additionally, despite the growth of the company and the team, Closer's strong value-based culture remained unchanged since its foundation.

The origin of Evalyze

Daniel Santos started as a client of Closer, at the Portuguese telecommunications company ZON, where he was coordinating and managing back-office jobs. Upon a proposal to work with Closer, he became a minority partner in Brazil, responsible for Closer's operations at the country, where he came up with the idea of creating Evalyze.

After receiving and developing projects of different clients to optimize their back-office operations, Daniel saw an opportunity to create an operations management platform, solving the problem of many clients, without the need to develop different projects. Hence, Evalyze – a platform to automate and optimize distribution of activities, prioritizing and monitoring them – was created in 2014, becoming from then on, the major innovation focus of Closer, requiring a huge effort by the company.

This platform used AI algorithms to automatically and intelligently distribute activities, increasing operations productivity by more than 30%. This was made through activity's distribution in real time, based on Service Level Agreements, Average Handle Time, customers' score, skills, and operator's availability. It also took into consideration the highest priority for the company. As this was just a reallocation of tasks, the operators didn't need to adapt to a new system or to new tools, continuing to perform the same type of activities (Exhibit 5).

Through Machine Learning the business rules of each company implementing the platform were incorporated and analytical and mathematical methods were used to automate end-to-end processes. The system provided an adjustment of the workflow during the day and an intelligent task attribution with time measurement.

All of this allowed an increase of productivity because the AI algorithms facilitated the measurement of the idleness levels and improved the capacity planning process. A decrease of errors and nonconformities was observed, the processes were standardized, and suggestions of standardized responses were provided in order to assure a superior service level. Consequently, effectiveness was more accurately controlled which led to an optimization of the required number of operators.

The solution was cloud-based and 100% web, in order to be accessible from home or office, which also allowed real-time monitoring and control (Exhibit 6). Additionally, the clients could customize the software and have dynamic dashboards, which made it easy to deploy and scale.

Although the idea came from Brazil, the product started to be developed in Portugal, with a parallel team in Brazil responsible for commercialization. Brazil would be a better country to start implementing the product due to the scale, as it would be easier to find companies with massive back-office teams, for example with 4,800 people, while in Portugal the average would be 60-90 people teams.

Due to the difficulty to control the performance and idleness of massive teams, the benefits to implement this software would be higher in Brazil. Client companies paid per activity or per number of users, thus Closer would gain more with larger companies.

As the developing and implementation would be done remotely from Portugal, the Brazilian team would only be responsible for monitoring the platform and offering client support.

Evalyze required a continuous investment. 4 million euros were invested in the product from 2014 to 2018. In 2018, Evalyze 4.0 was developed, which would take 4-6 weeks to deploy. It was more structured and had more features. By 2018, Evalyze was representing 90% of nearshoring revenues.

The market of Evalyze

Evalyze was developed aiming to increase the efficiency of companies with activities in different operations and departments. This tool was designed for contact center employees, which consequently created benefits to management teams, coordinators, and supervisors.

Contact centers are present in several industries, which made Evalyze's users to be present in services such as telecommunication, banking & financial services, travel and transportation, e-commerce, healthcare…

The common key performance indicators (KPI) used in contact centers were the number of calls waiting, along with the average customer waiting time. Also, the level of customer satisfaction was a critical performance metric, with the customers rating the service quality and their satisfaction level after calls. A third one was the attrition rate, which refers to employee turnover and high levels would mean poor performance of back-office employees, which would increase recruitment and training costs.

Evalyze would provide a different KPI as it would allow proper communication between the front and the back-offices, using AI algorithms that would receive inputs from various sources and allocate activities to the employees, allowing managers to control and monitor the entire process anywhere.

All these processes would be made through computers connected and communicating with one another, without the involvement of human beings, this trend towards automation being the fourth industrial revolution, or Industry 4.0. As there were still many organizations denying the impact of Industry 4.0 in their businesses, Closer was not facing many competitors also using AI.

The existent competitors would offer a slightly different product but serving similar purposes. Approximately three other companies – G4 Solutions, Turbina, and Genesys – offered similar competitive solutions, as they were also using AI. They differed from Evalyze due to the need to adapt to a new system, while with Evalyze operators would continue doing the same type of activities. However, there were many other companies offering solutions with KPIs. These last solutions would not provide the levels of effectiveness and productivity of Evalyze, but it was what companies in the market were using, so it was hard to make customers change and adopt this new and different product.

The challenges of Evalyze

When companies decided to launch a product in this industry, it was common to get external funding to create a team that developed the product during 1-3 years and then to put it on the market. This team would not only create the product but also manage the way the different types of clients would have access to it.

The big challenge for Closer when developing Evalyze was not using this approach. The method was to use the company results, investing the money freed up by other areas. However, there was a problem when these amounts started not to be sufficient, as the product began to require a massive effort and investment, due to the need to always be innovative and to improve its features.

Another consequence of not getting funding was not having a specific team to create the product. The product was commercially successful since the beginning, resulting in high demand and clients wanting to experience it immediately.

Yet, the product was not completely structured and developed. It was made in 2/3 months and was focused on the first clients' needs and not on the general needs of the market neither in its future needs. Consequently, it was taking some time to implement and Closer didn't have the human resources necessary to fulfill all the demand. Given this lack of resources, it was also hard for Closer to separate the best employees to a team to develop and improve the product, as they were also needed to give support to the existing clients.

Nonetheless, after three years the company decided to create a new product from scratch, Evalyze 4.0. This new product had the same purpose, but it was more than a new version, as it was built with a structure to be scalable and adapted to the different clients. It took one year to be developed and included more features, being more dynamic and easier for users to work with it. The decision of creating the new product was made because the previous product had some limitations. By then, the team already had know-how about applying machine learning to contact centers and knowledge about the needs of the market. After having developed the product, a continuous investment in innovation was necessary.

Given all the success in Brazil, the managers decided to expand the product to Europe. Despite the Brazilian references, the European companies were reluctant, as Brazil was not seen as a developed country. Thus, they didn't perceive the product's potential. Moreover, there was the issue of why Closer had never implemented it in Portugal. Therefore, due to all the barriers to enter European countries, the team decided to focus only on Portugal and then possibly expand to other countries.

Even though the product was implemented in big telecommunication companies and banks in Portugal, Closer kept having problems with it. The main problem was the fact of being an innovation, which was a challenge due to the lack of knowledge from potential clients. Although they had interest after understanding the product, they would not have budget for it, and they would want to test it before buying it. All these steps would take quite a time. Usually, the client would take 2 years between the moment of showing interest in the product and the moment the product was fully implemented.

This put Closer at a crossroads since if it increased its human resources there could be the risk of having teams idle in case of a decision delay from potential customers. However, if Closer didn't increase its human resources, it would be impossible to meet the demand if many clients were interested in implementing the product.

Looking to the future

Evalyze got a high initial investment and a continuous investment throughout the years in order to always be innovative. This led Closer to only expect to reach the product's break-even at the end of 2019. The break-even was a critical point to the company and the moment to make crucial decisions about Evalyze's future.

The uncertainties associated to technological innovation were a big concern for Closer's management. Evalyze was one of the first systems using AI algorithms in the contact center software industry. Its impact on the company's operations and profitability was not known. Whether it could become a disruptive success or a failure was a key question. Therefore, in order for Closer to continue having success, it needed to define its next steps.

On one hand, there was the possibility to continue investing in the product. This would imply the risk for the company to never see a substantial profit as the product was hard and time-consuming to implement. Thus, there would be no immediate return. The expectations were for the product to have high EBITDA margins, reaching about 45%, which was what normally happened with this type of solutions. However, this was a prediction. Since the investment also needed to be high, the scenario for the company not to see the desired profit with the product was possible.

Nevertheless, with the company continuing the development of the product, it could get capital funding and expand to other countries. Having already references in Portugal, it could be easier for other European countries to accept and recognize the quality and benefits of the product.

The expansion could be made in several ways. Closer could open offices and establish teams in strategic countries. This would involve a high investment, not only to sustain the offices but also to train and hire qualified workers. Or it could find partners in those countries and prototype the product for them to implement. Thereby, Closer would not need to open an office, making money with the software's license but not from its implementation.

Nonetheless, this expansion would require the product to have a different structure, not only because of the need for support teams but also because extra resources would be necessary, for example for instruction manuals in different languages. And, although the product was already implemented in Portugal, the openness of companies in other countries to try the product and to perceive it as something valuable was unknown.

Still, on the other hand, Closer could decide to spin-off the product. This option would allow the streamlining of other operations and the access to capital to reinvest in other areas.

Consequently, there would be an improvement of the overall margins and the company could be more appealing to investors.

Moreover, with a subsidiary for Evalyze, the new company could focus on the development of the product, with its own management and looking for the resources needed for the product to grow. This would also give to investors transparency on each company's business operations.

This scenario could imply the need for Closer to find another "star", in order to keep being distinctive and at the edge of innovation. The new project would be something in which the company would differentiate from the competition and create some kind of competitive advantage in the market.

Oriented by the mission "To Challenge Complexity", Closer had defined as future strategic goals the continuous investment in R&D of 20 to 30% of the company results, increasing the number of clients implementing its solutions and increasing the consulting services business. Therefore, it was aiming to continue investing in Evalyze, as it was so far the company's most innovative project.

Closer's executive team was conscious that the achievement of its medium and long-term goals would be a hard and difficult journey. It would need to undergo an expansion to different markets and geographies, maintaining cautious management and investment policies.

The downside of these goals was their viability. Evalyze was still unclear, the expectations for it to be a success and generate great profit margins were high. Yet, it was on an industry growing at a fast pace and, for the product to continue at the forefront of innovation, it would require continuously high investments. These were risky as they could not be recovered by revenues or the return could not be enough to become a sustainable source of profit, which would create a serious problem of sustainability for the company.

The discussion in the conference room was going on with the aim of understanding if Closer should continue investing in Evalyze or if it should consider other strategic options that could bring more light to the company's future.

Literature Review

The following section will cover theoretical insights about concepts presented in the Case Study, which are important for the development and understanding of the Teaching Note.
This Literature Review will be divided into 2 main topics: The Industry 4.0 and Growth Strategies. In the last topic, the opposing views of divestiture and internationalization as growth strategies for a company will be covered, with special attention given to the different entry modes of internationalization strategies.

Industry 4.0

According to Stearns (2013), the industrial revolution was the most important global process of the past three centuries. The first revolution emerged in the late 18th century and it transformed the world, introducing power generation and new production methods. Afterwards, other industrial revolutions happened, with industrialization starting the second revolution, at the beginning of the 20th century, and the electric automation starting the third revolution, between the 1970s and 2000s (LR Exhibit 1).

In 2011, at the Hannover Fair, a new industrial revolution was introduced, Industry 4.0. The Germany Trade and Invest defined it as:

"A paradigm shift… made possible by technological advances which constitute a reversal of conventional production process logic. This means that industrial production machinery no longer simply "processes" the product, but that the product communicates with the machinery to tell it exactly what to do"[1].

From Baur and Wee's perspective (2015), this industrial revolution is driven by four disruptions – the extraordinary growth of computation power and connectivity, the rise of business intelligence capabilities, the new interaction between humans and machines, with touch interfaces and augmented-reality systems, and the advances in transporting digital to the physical world, with advanced robotics and 3-D printing.

The revolution was aimed to improve levels of competitiveness, expertise, and efficiency through industrialization, informatization, and digitalization. Consequently, this is expected to have a positive impact on business operations and growth (LR Exhibit 2).

The Industry 4.0 can be characterized by the boost in digitization of the business environment, with enabling technologies like Cyber-Physical Systems (CPS), Internet of Things (IoT) and cloud computing (Xu, Xu & Li 2018; Skobelev & Borovik 2017).

[1] Sniderman, B., Mahto, M. & Cotteleer, M.J. (2016)

The CPS came to replace the embedded systems. The embedded systems are information computing systems embedded into equipment that supervise and control physical procedures. CPS are technologies that do not only connect physical information with the digital field but also collect data from the physical devices to then be communicated and analyzed by machines that use it to drive further actions in the physical area (Sniderman, Mahto & Cotteleer 2016).

The IoT is seen as the most important part of this industry. This is a network that connects people and physical and virtual things, based on information and communication technologies (Skobelev & Borovik 2017). IoT is seen as a crucial aspect, as connectivity has become more important in creating new products and services and in increasing customer satisfaction. With these technologies, manufacturers can improve their operations and fulfill their goals in a more efficient way (Sniderman, Mahto & Cotteleer 2016).

Cloud computing is a technology that allows resource sharing, dynamic allocation, and flexible extension through the upload of information in servers hosted on the internet. It is an efficient solution for problems of weak data exchange and sharing, which helps organizations to increase their productivity and improve their resources' utilization (Xu, Xu & Li 2018).

Sniderman, Mahto and Cotteller (2016) considered that the Industry 4.0 would bring transformations at various levels, from customer interaction to engineering and even to the products. This may happen as a consequence of the relations between physical to digital, only digital, and digital-to physical.

From the customers' side, the understanding and prediction of their needs will be enhanced, due to the data and information collected. This data can be meaningful in providing and pricing products and services cleverly and at the right time.

Engineers can benefit from Industry 4.0 as the technologies hasten the design process and shrink dependencies of the supply chain. Furthermore, a progress on effectiveness can be observed, with the sharing of intellectual property, which permits an improvement on the products due to the freelance design.

From the products perspective, delivery of new levels of value to the customers is expected, with new products or improvements in the existent ones. Also, for business-to-business, these new applications are expected to transform the value proposition of industrial products.

Regardless of all the advantages Industry 4.0 can bring, it still has many challenges ahead, mostly associated with the convergence of information and operational technologies.

One first challenge is related to the lack of talent to implement and give support to these new systems. To overcome this problem, companies can make partnerships with other companies or universities, in order to create an ongoing flow of skilled workers. Additionally, most companies don't have yet infrastructures to support the new technologies and the faulty interoperability among systems also creates difficulties in fully adopting them. The interoperability problem can be surpassed through the development of a standardization process, which would facilitate the adoption of Industry 4.0. Another substantial challenge is the concern regarding privacy and security. With these technologies, a great deal of private information would be collected, hence companies have to be cautious and protect their systems (Sniderman, Mahto & Cotteleer 2016; Xu, Xu & Li 2018).

Industry 4.0 brings an improvement of the link between information and operation technologies. The interaction of information technologies with the physical world is expected to revolutionize the product and the business models, creating business growth. Despite the predictions of growth, this revolution is still at an initial stage and its outputs are ambiguous. Different researchers believe that the main achievements will not be observed earlier than 2020-2025. Thus, until then they can only make predictions and understand how companies are reacting to these transformations (Xu, Xu & Li 2018; Skobelev & Borovik 2017).

Growth Strategies

For companies to survive in the market and adapt to the transforming world, they should avoid stagnation and make the effort to grow efficiently and at a steady pace. However, to achieve growth it is necessary to have a strategy to extend the business and to be the first employing fresh knowledge in innovative products or new markets. This strategy should not be aimed at creating sporadic growth but a continued and sustainable growth (Krogh & Cusumano 2001).

There are several strategies that firms can adopt to exploit innovations and create sustainable growth. Here two will be analyzed – spin-off and internationalization. The first is linked to company restructuring. The second is related to expansion to other markets and countries.

1. Spin-off

Corporate divestiture is a strategic decision to restructure the business of a company or its portfolio. This decision can occur in the form of a sell-off, spin-off, or equity carve-out (Brauer & Wiersema 2012).

Sell-off happens when the business unit is sold to another company, losing all the control they have over it. The spin-off occurs when a firm distributes the common stock of a controlled subsidiary to its shareholders, building a new publicly traded company (Woo, Willard & Daellenbach 1992). Lastly, equity carve-out occurs when the subsidiary is floated on the stock exchange, this is only a partial divestiture as the parent retains majority control over the business unit.

Divestiture doesn't occur only when businesses are not performing well. It can be a strategy to get a better stock evaluation of the business or due to a poor strategic fit between the parts, it may be a way of having financial benefits from different knowledge among the parts (Bergh, Johnson & Dewitt 2008). Additionally, it can occur when firms don't want to explore an innovation internally, hence they create a new company to make the innovation grow (Cassiman & Ueda 2006).

According to previous research, divestiture creates wealth for the divesting firm. Yet, some authors say that outcomes are irregular and a certain level of ambiguity regarding the effects of it can be found. Thereby, this is a strategic decision that managers need to do based on contextual factors along with a contingency plan (Brauer & Mwiersema 2012).

When the unit that will be divested is associated with the commercialization of innovations, Cassiman and Ueda (2016) stated that if the innovation is kept by the company, it tends to fit properly in the internal resources showing lower commercialization costs. However, these resources are limited and there are higher levels of cannibalization and lower profitability than when the innovation is exploited by a new company. This new company is usually created in the form of a spin-off.

To build a new company, a substantial reorientation is needed and the company can undergo some difficulties to adapt to its independence. For example, negotiations with buyers, suppliers, the government, and partners that were made at the corporate level, are now responsibility of the new firm. Nonetheless, as the firm becomes publicly traded, an improvement of managerial arrangements can be observed and, afterwards, performance gains can materialize (Semadeni & Cannela 2011).

Woo, Willard and Daellenbach (1992) observed that after a spin-off new firm's performance declines, instead of improving. Generally, after the announcement reactions are promising, with a positive effect on its market value. However, restructuration involves costs and disruptions and there are changes in resource allocation and competitive position. Hence, the gains observed in the first phase can be an illusion and, to avoid unforeseen events, managers need to balance the advantages for both the parent and the divested firms. Some authors suggest that spin-offs are usually driven by inefficiencies of the parent firm and made to its best interest, instead of by the divested firm's benefit (Semadeni & Cannela 2011).

Furthermore, as suggested by Bergh, Johnson, and Dewitt (2008), spin-offs allow firms to reduce their too wide portfolios, which consequently will make them more efficient and transparent, mitigating the problem of information asymmetries. This divestiture alternative can bring more advantages to firms with high specialization and low diversification since when firms are highly diversified there is lower awareness of the value and potential of the different assets.

Even though the potential success for the new firm needs to be well evaluated, spin-off is preferred to other divestment options because it is a staged and not a complete divestment (e.g. sell-offs). In a stage divestment, the parent firm has the opportunity to keep a connection with the industry of the divested firm and change the divestment strategy, having further strategic options for the future. If conditions are favorable, the divested firm can be brought back to the parent's management easier than if the divestment had been complete. Otherwise, if conditions get worse, the parent can continue with the stage divestment or go to a complete divestment (Damaraju, Barney & Makhija 2015).

Summing up, with the technology advances and the changes in the global economy, companies need to keep constant growth and to revise their business portfolios, in order to focus on the business units that are more profitable. Spin-off allows firms to realign their operations and perhaps to improve their performance. On the divested firm side, an orientation towards what is its main objective can be observed.

2. Internationalization

Internationalization is a strategy that firms use to grow and diversify geographically. It is a mode of increasing involvement in operations across borders.

By entering new markets firms have the opportunity to develop and change their scope, action orientation, and the nature of managerial work. Additionally, momentum is gained with the integration of the world economy and the continuous advance in technology, which can lead to further growth and to establish a competitive advantage relative to its competitors (Lu & Beamish 2001; Melin 1992).

Besides the productivity and economic growth that internationalization creates, firms that internationalize have the tendency to be more productive than firms that only operate in domestic markets. They likewise have more propensity to invest in innovation, which is another way of growing (Altomonte et al. 2013).

A strategy of internationalization allows firms to exploit market imperfections and obtain greater returns from their resources. Nonetheless, firms can also face some challenges, because in order to grow successfully they need to acquire knowledge and capabilities and create business relationships (Lu & Beamish 2001). Furthermore, this growth can bring more complexity to the existent operations and management, due to the increase in the firm's dimension. Therefore, companies will be dependent on their portfolios and will need to balance the risks, profits, investments required, and the know-how needed and that will be obtained. (Kutschker & Schmid 2011).

As a strategic decision, when firms decide to internationalize, several paths need to be considered. Mascarenhas (1992) suggested that with products in an earlier life cycle stage, firms should firstly enter large, developed markets, with lower risks and afterwards use the experience, knowledge, reputation, and resources obtained to expand to other markets. Conversely, when the product is in a mature product life stage, it may be more cost advantageous to enter simultaneously different smaller markets, as customers are more familiar with the product and there is more competition. Hence, although it involves more complexity it's also more secure to introduce the product in multiple markets at the same time.

The timing of entry is another factor that has great influence in the internationalization process. Firms can decide to be first-movers or late-entrants. Typically, first-movers are the pioneers, which set the industry standards and have the advantages of obtaining economies of scale, learning curve effects, customer loyalty, and the access to distribution channels and suppliers (Pan, Li & Tse 1999). As they become technical leaders, they generate switching costs for the customers, which consequently will allow them to maintain a higher market share than late-entrants (Mascarenhas 1992).

On the other hand, late-entrants follow a focused strategy and as the know-how is already transferred, there is more information and less technical and market uncertainties, which are the disadvantages that first-movers undertake (Mascarenhas 1992; Pan, Li & Tse 1999).

Besides the order of entry, the internationalization strategy also needs to consider the different entry modes. Firms can trade, supplying goods and services between countries, or they can do a direct investment, creating operations in a different country, which allows the firm to have access to local resources in a more controlled manner. Service industries in which trade is not possible, such as banking, consulting, and software development, are called multi-domestic industries and only internationalize via direct investment. Different entry modes in international markets for this type of industry will be reviewed deeper.

2.1. Entry modes

The mode of entry in the foreign market is one critical decision that firms need to make when deciding to internationalize. There are several entry modes. Still, the most common in service firms are: wholly-owned subsidiary, joint venture, licensing, or contractual joint venture (Anderson & Gatignon 1986).

A wholly-owned subsidiary is the case in which the parent company controls and holds 100% of the common stock. This can occur by the form of mergers and acquisitions or greenfields. A joint venture is a business arrangement between two or more parties, in which a new firm is established. Licensing is a contractual arrangement in which the owner of intellectual propriety concedes the right to another party to use it. A contractual joint venture is an agreement between two parties, in which a contract is signed but the parties don't set up a separate entity; they work together in partnership.

The mode of entry can have a decisive impact on the success of the firm across borders. Nevertheless, all modes reveal strengths and weaknesses, which can be identified but are hard to predict, thereby it cannot be known which one will yield to higher profitability (Anderson & Gatignon 1986).

Pan, Li, and Tse (1999) advocated that wholly-owned subsidiaries and contractual joint ventures have similar profitability, and both have significantly lower profitability than joint ventures. Joint ventures provide higher profitability due to synergies, expertise complementarity, and the commitment of the partners. Conversely, there are substantial costs due to the need for searching for a local partner and due to the incorporation of assets and resources.

Through wholly-owned subsidiaries firms tend to have better oversight of the production process. Additionally, they hold full autonomy to control their strategies and the proprietary know-how is more protected, there is high efficiency, managerial control, and strategic focus. However, firms need to deal with the local government and to overcome insufficient local knowledge and business networks.

Contractual joint ventures have the same advantages as joint ventures, however with this mode the firm that wants to internationalize has no control over the operations. Thus, this is perceived as a short-term oriented strategy.

It also needs to be considered that when the resource requirements are high, there will be more difficulties to recover the investment and generate profits. Joint venture is the mode which may be more complex, because with wholly-owned subsidiaries the company only needs to replicate what it already does successfully. Thus, when local knowledge is not critical to survival, wholly-owned subsidiaries only bear minimal new resources-based costs, while with joint ventures there is always the need to find a partner and to combine their resources.

Regarding licensing, there are fewer costs of establishing and maintaining the agreement, when compared to the other foreign direct investment. Its incentives are short/medium-term oriented due to the limited opportunities for learning and market development. Yet, licensing has greater potential to generate income and improve performance. Usually, this is a mode used in the last stage of the product life cycle, with its standardization (Zahra, Ireland & Hitt 2000; Young 1987).

Essentially, the entry in international markets is characterized by a commitment that takes into consideration the acquisition, the integration, and the need for local knowledge. This impacts the firm's pattern of growth, requiring structural changes.

The opportunity to explore and enhance firm-specific resources is also an important factor. Meyer, Wright, and Pruthi (2009) considered the Resource-Based View framework in order to explain how firms can create value with their strategies to internationalize. This framework links the internal strengths of a company to the environmental opportunities. If companies prevent internal weaknesses and counteract external threats, they can create a sustained competitive advantage by taking advantage of their strengths in the given environment (Barney 1991).

The application of this framework to internationalization strategies helps firms to use their existent resources to grow, taking advantage of the international environment and, then, increasing their resource endowments. Therefore, internationalization will be a way to boost the firm's resources base with the exploitation of internal knowledge and access to external knowledge with foreign operations (Meyer, Wright & Pruthi 2009).

Using the foundations of the Resource-Based View framework, Meyer, Wright, and Pruthi (2009), classified the entry modes according to the exploitation of resources, with three levels: high, medium, and low resource-augmenting modes.

The high resource-augmenting mode includes wholly-owned subsidiaries, in which there was an acquisition, where firms have complete access to the resources of the local firm. The medium resource-augmenting mode is constituted by wholly-owned subsidiaries created through greenfields and joint ventures. With this mode, the entrants can exploit their own resources and complementary resources of the foreign market. The low resource-augmenting mode includes contractual joint ventures and licensing. These offer limited resource retention and knowledge transfer due to the poor relationship between both parties.

In order to choose which resource-augmenting mode is preferable, firms need to consider if they benefit from exploiting their own resources or if they need to obtain market-specific knowledge. If they need to adapt to the local market, they should evaluate the medium and high modes, otherwise, the low mode can bring more advantages.

In essence, for companies to grow with international strategies and choose the best mode of entering in foreign markets, they should not only focus on the control and performance they will obtain, but they also have to take into consideration how their resources will be enhanced and how they can create value for the company.

Teaching Note

Learning Objectives

With this Case Study students are encouraged to think critically about Closer's strategic management, in terms of:

- Identifying its resources and capabilities;
- Recognizing the problems associated with the management of the portfolio of a diversified company;
- Understanding the possible challenges associated with the commercialization of an innovation;
- Providing recommendations related to Evalyze's growth and Closer's sustainability;
- Designing an international market entry strategy.

Analysis

1. **Evaluate Closer's corporate strategy.**

When analyzing the corporate strategy of Closer, the scope of its activities, in terms of the industry and markets where it competes, needs to be considered.

Firstly, we need to design Closer's scope and evaluate how different it is from the competition. The scope can be evaluated from three different dimensions – vertical scope, geographical scope, and product scope.

In terms of vertical scope and vertical integration, Closer wanted to be present throughout the whole value chain. Initially, Closer was only providing consulting services. Thereafter, it offered qualified IT experts to its clients. And lastly, it started outsourcing software development. With these different services the company wanted to satisfy all the needs clients had, creating an easy, smooth, and pleasant client's experience.

In geographic terms, Closer started its operations in Portugal, but soon it established an international presence. In the second year of operations, it developed projects in Mexico and Norway. Later, in 2013, the company opened offices in the UK and Brazil, reinforcing its presence in the UK with the acquisition of the company Red Zebra Analytics, in 2014. This acquisition was meant to complement the services offered by Closer while applying its advanced know-how in cloud computing at Red Zebra Analytics' platform. Then, in 2016, Closer opened an office in Macedonia directed towards R&D of software. Finally, in 2018, it opened an office in Hong Kong, in which there were no operations yet, but it was aimed to expand Closer's presence to another continent.

The product scope is related to diversification, namely having in mind the criterion of whether a company with different business units can extract value from all of them. Closer allocated its resources and capital expenditure among three different business units. The core business was consulting, which was growing the most and providing sustainability to the company. Nonetheless, the trend of recent years was to refocus the core business, with nearshoring being in the spotlight. Since 2014, with the creation of Evalyze, this business unit started to demand a high investment. The majority of capital expenditures and resources were directed to it. However, it was not always easy to allocate the best resources. For example, staff still had to support existent clients and couldn't dedicate totally to develop Evalyze. Hence, nearshoring was the major focus of the company but, as Evalyze was only expected to produce results in the long-term, consulting was still the core business.

Diversification is an important topic for Closer, like for most companies, as firms need to be always assessing opportunities to diversify or to divest. A typical concept to assess diversification is the parenting advantage, which says that the parent company must not only add value to the business unit but also be capable of adding more value than any other potential parent. Therefore, to add value to the different business units, companies need to manage the corporate portfolio, the link among businesses, and the individual businesses.

The management of portfolios is usually done through portfolio planning matrices, as they help to analyze the value-creation expectations of the different business units. The Ashridge Portfolio Display is based on the concept of parenting advantage and takes into account not only the characteristics of the business but also those of the parent company. This planning tool focuses on the fit between the business and the parent (Figure 1).

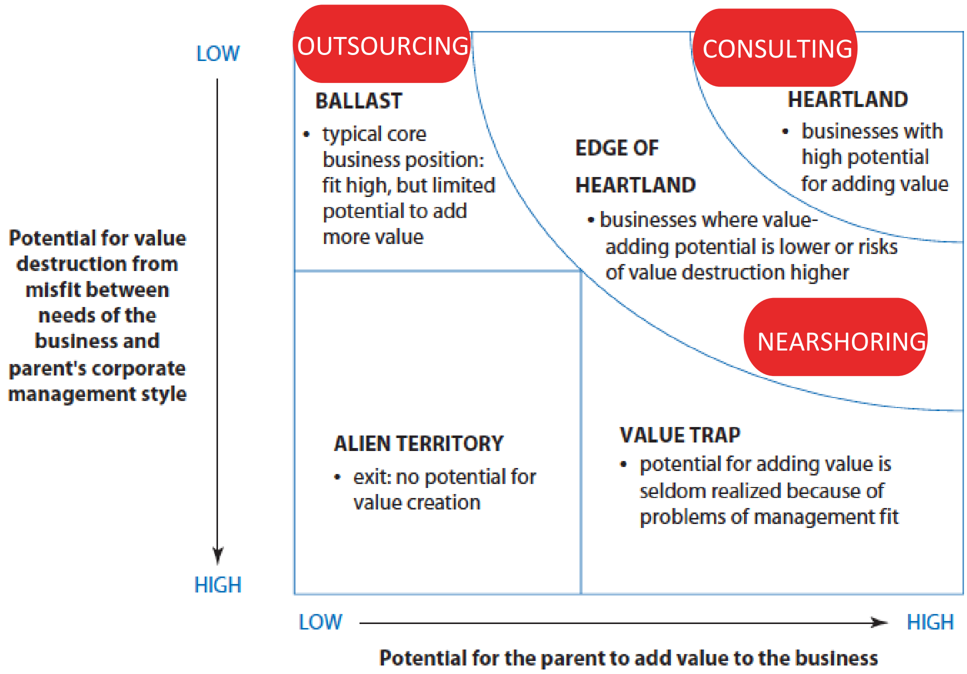


Figure 1 - Parenting-Fit Matrix[2]

As shown in Figure 1, the assessment of how the parent's characteristics fit the business unit opportunities is on the horizontal axis. The misfit between the parts is on the vertical axis. The better the fit, the lower the probability to destroy value in a business.

In Closer's case, the three business units can be allocated to different positions in the matrix. Consulting was a heartland business, as it was the business in which the company identified its

[2] Grant, R.M. (2016)

critical success factors and knew how to tackle them. It was the area with more years of experience and the one with higher growth rates.

Outsourcing could be considered a ballast business, as there was a good fit with the company, but there was low potential to create more value. The company understood the business very well which made it a good source of stability. There was some competition emerging, but the company knew how to restructure the business and deal with it. Nonetheless, the business was not growing as much as the other areas and it was not seen as Closer's main focus.

The nearshoring was an edge of heartland business. This was a business in which it was not clear if the parent would create or destroy value. Nearshoring was an area that was taking a lot of attention by the parent in order to understand if it was possible to transform it into a heartland business. The investments were high and the expectations to create value were also high. However, it was not a certainty. Thus, there was a high risk for value destruction.

In addition to the scope analysis of the company, the corporate strategy should also be evaluated from a dynamic perspective, in which the objectives of the company are examined along with the assessment of how they will be achieved. Closer had as mission "To Challenge Complexity" and looked forward to follow it with a strong investment in R&D and providing its clients with the best IT professionals and solutions. Innovation was the main driver of the company, nonetheless the management team was aware that the company needed to have a sustainable growth, so the investment in R&D needed to be disciplined and controlled.

2. What are its main resources and capabilities?

The development of resources and capabilities has been the primary step for firms to establish a competitive advantage. Resources can be seen as the assets the company holds and capabilities are what the company can do with its resources. Resources can be divided into three types – tangible, intangible, and human (TN Exhibit 1).

The resources of Closer include:

- Financial resources – the company registered a turnover growth rate of 25%. Part of the results were invested in R&D, allowing the company to not only keep the businesses running but also investing in its improvement and expanding to more areas.
- Reputation and brand recognition among the industry – the portfolio of companies with which Closer worked included several known Portuguese and international companies.
- Technology that has been developed and applied in different projects. Closer was market leader in applying AI in contact centers with Evalyze. In addition, it was among

the best data science consultancies, providing top technology and professionals with strong technical skills to its clients.

- Skills/know-how – selection of experienced and talented IT employees, from different areas, such as physics, economics, management, and computer science.
- Ease of communication and openness inside the company.

Capabilities are essential because they involve the firm's capacity to use its resources to reach a purpose. Capabilities can be identified with the disaggregation of the firm's functional areas. Closer's operations, information systems and technology, and human resource management are areas that deserve a deeper assessment.

In operations, Closer used its experience and expertise to create the best link between the client's needs and its solutions. Consequently, the projects that worked well were more than replicated, they were developed as products in order to provide enhanced performance to the client. This way of working not only aimed to improve clients' experience but also to optimize Closer's operations.

Regarding information systems and technology, the company results were invested in R&D, in order to provide the best services and be on the edge on innovation in its three work fields – Data & Intelligence, Technology, and Business. Additionally, the company was able to integrate the different technologies used into complete systems to offer to the clients.

Concerning human resources management, Closer was a medium enterprise, with around 200 employees, in which there was a casual work environment, aimed to create closer relationships and openness between the teams. Furthermore, employees were challenged and motivated to cooperate with each other and innovate. The flexibility for moving among different areas was hard, due to the different mindsets required, however, it was not impossible and could happen.

More important than the establishment of resources and capabilities is the capacity for the company to capture their value. Resources and capabilities need to be evaluated in order to assess if they can deliver a sustainable competitive advantage to the company.

One tool to make this analysis is the VRIO framework. With this framework, Barney (1995) identified four questions to observe the competitive potential of the resources and capabilities. If the resource or capability can meet all the four requirements, it may create a sustained competitive advantage to the company (TN Exhibit 2).

Looking deeper into Closer's resources and capabilities, there are some that can potentially give a sustained competitive advantage to the company:

- Technology – Closer's technology is a source of differentiation. The company uses its own technology which is valuable as it's the basis of its businesses. It's rare since it is Closer who is developing it, based on the trends of Industry 4.0. Even though Closer doesn't have patents, it's hard to copy as the company is continuously improving it, resulting in a high cost to imitate. It's also organized in the sense that the company knows how to use it to provide the best service to its clients.
- Skills/know-how – The skills of its employees are essential to Closer. It's valuable because the company focuses a lot in R&D, which requires skilled professionals. It can be seen as rare as there are few companies with skilled employees from so different areas as Closer. It's costly to imitate due to the need to invest in people with expertise and continuously train them. And it is organized as the company coordinates and uses this resource effectively.
- Human resource management – Closer gives to its human resources a good working environment and challenges them to always improve, which is something valuable for the company. However, this resource is not rare, as nowadays most companies attempt to give their employees the best working conditions. Thus, with this resource, the company only has a competitive parity.

	Valuable	Rare	Inimitable	Organized	Sustained CA
Technology	✓	✓	✓	✓	✓
Skills/Know-how	✓	✓	✓	✓	✓
Human resources management	✓	✗	✗	✗	✗

Table 1 - VRIO Analysis

Closer has, at least, two resources that can be seen as sustainable sources of competitive advantage. Consequently, these are resources that the company needs to protect and constantly keep on improving. Nonetheless, the company needs to continuously evaluate its resources and capabilities as their value changes over time.

3. **What are the main challenges that Closer faces? What are the current problems and threats of Evalyze?**

Since its foundation, Closer followed the mission of challenging complexity. Starting as a small consulting data science company, it grew throughout the years and started providing other services and expanding not only nationally but also internationally.

Despite its success, Closer should mind the possible risks that it was exposed to and that could interfere with its growth.

The main challenges faced by the company at that moment were:

- Resource-allocation – Closer had three distinct areas that needed different resources and provided different returns. The company needed to find a way to allocate the limited resources across the different areas, also paying attention to the potential return from each one, in order to ensure its sustainable growth.
- Over-expansion – nearshoring was an unstable area, as there were still some products being developed and it was not known which demand was going to materialize. Consequently, Closer was dealing with the dilemma of whether or not to increase its human resources. Increasing without demand would mean having idle employees, not increasing would mean difficulties in meeting all the demand.
- Sustainable growth – There was a big emphasis on growth. The company wanted to grow in all the three areas. Nevertheless, some were harder than others. For example, Evalyze was requiring high investments and was not yet generating significant returns, which could create a sustainability problem.

Evalyze was the main innovation of Closer and the product that was requiring the majority of resources and effort from the company. Still in development, it was encountering some pitfalls related to:

- Industry attractiveness – Evalyze was designed for contact center sectors. It was an innovative KPI, but companies were already using other solutions and products. Consequently, a problem of attractiveness emerged. Evalyze could deliver better performance and efficiency levels, due to the use of AI algorithms. However, companies didn't perceive its value because AI was still a novelty and companies were not familiar with it.
- Competition – Evalyze was facing few competitors, directly it could be said that there were none. Nonetheless, other companies offered a different product that had the same target, thus Closer needed to consider these competitors since they could diminish the demand for Evalyze.
- Imitation – By the end of 2018 Evalyze was unique. Still, Industry 4.0 was flourishing and companies were starting incorporating its insights. Thus, the emergence of some competitors also using AI could be expected, starting replicating the features of the product and then competing directly with Evalyze.

- Innovation – Evalyze was an innovation developed due to the fourth industrial revolution. This revolution started the trend of automation and carried significant changes in the way the world operated. These changes were not static, they kept happening. Thereby, in order for Evalyze to continue to be innovative, it would require continuous investment.

Closer still had many challenges ahead, especially with Evalyze. The product faced several threats that needed to be considered, as they could not only affect Evalyze but also put at risk other areas and the sustainability of the company.

4. **How can Evalyze grow sustainably?**

Closer invested strongly in the development of Evalyze because it was not only an innovation, but also a product that in the future was expected to generate high returns, expecting to deliver EBITA margins of 45%.

The company aimed to continue the investment in Evalyze and to create a strategy for sustainable growth. Yet, these growth ambitions need to be supported by a strategy that takes into account not only the resources and capabilities of the company, but also the opportunities to be found in the external environment.

The TOWS Matrix matches the external threats and opportunities with the internal strengths and weaknesses, in order to provide strategic direction (TN Exhibit 3).

Firstly, a SWOT matrix (TN Exhibit 4) was developed to subsequently establish a connection between the strengths, weaknesses, opportunities, and threats of Evalyze. This TOWS analysis will help to develop strategic options for Evalyze's growth:

Strengths-Opportunities:

- To take advantage of being among the first in the market in order to promote the product and its quality and efficiency.
- To exploit its skilled employees and the know-how and expertise about the systems emerging from Industry 4.0.

Strengths-Threats:

- To promote the features of the product and the results already obtained in order to create trust and confidence and make clients change from their current software.
- To approach as much clients as possible in order for them to perceive the quality of the product and switching for the product before competitors start using the same methods.

- To take advantage of the skilled employees in order to improve the product and make it unique and more difficult to be replicated.

Weaknesses-Opportunities:

- To reinforce clients' perspective of the increase in efficiency and productivity that can be obtained with the product, which in the medium/long-term will compensate the initial investment made.
- With people embracing the trend of Industry 4.0, clients may perceive other products as obsolete and Evalyze may start to be seen as a useful innovative tool.

Weaknesses-Threats:

- To focus on the differentiation factors of Evalyze and on the success cases, which would make clients less reluctant to switch from the products they already have.
- To keep the contact with clients after the trial phase, in order for them to allocate budget for the product.

The TOWS analysis helps the company to have an insightful and detailed perspective of Evalyze and to identify opportunities for the product to grow sustainably. Nonetheless, the question of how to seize these opportunities is the most important. Consequently, the company needs to define a strategic direction to position Evalyze in the market.

Ansoff developed the Ansoff Matrix (TN Exhibit 5), in which four different strategies for growth were identified, relating the new and existing products and markets. Each strategy is associated with different potential and risks.

In Closer's case, the company doesn't have resources to continue investing in Evalyze and create new products simultaneously. Although new products could help Evalyze growing, as new clients would be addressed, this is not a viable option since the company needs to keep its sustainability. Consequently, the analysis should only be over the two strategies of market penetration and market development.

The market penetration alternative focuses on selling more in the existing markets. Closer can make Evalyze grow by providing the software to the existing clients that don't use it yet or by seeking new clients in the same target market. There are many industries using contact centers, meaning that Evalyze still has room to expand within its target market. This alternative has low risks since the company is only expanding the clients' target, although at the cost of slower growth.

The second option is market development, which occurs when the company tries to find new markets for its product. Closer can opt to enter new geographical markets. Here, the potential for growth would be high, but the strategy would need to be well defined as the risks can also be high. In addition, the company could opt to create different price policies in order to explore new market segments. One option could be for the company to sell a shorter version of Evalyze with a lower price and access to only the main features. The main risk associated with this option could be the changing of the client's perception of the product's quality.

Summing up, Evalyze's growth will be influenced by several internal and external factors. Therefore, in order to design a strategy, the strengths and opportunities of the product need to be exploited. But Closer also needs to analyze which path should Evalyze follow and define the best market position for the product to grow sustainably. Given the analysis previously developed, the best for Evalyze seems to be the market development strategy as the product may grow faster and reach a broader range of clients.

5. What are the alternatives open to the company? Evaluate each of them.

Closer was in a critical moment, with the decision of what to do next with Evalyze. On the one hand, it may generate high returns. On the other hand, its upgrading may require a continuous investment, which could create a tough financial situation for the company.

The company could follow two paths: to divest the product or to continue investing in it. In the first scenario of divestiture, the company was only considering the spin-off of the product. However, there are more alternatives, such as a sell-off or an equity carve-out.

In the second scenario, the company would continue investing on the product and the management team could opt for continuing with the same method, of funding from its own profits, or could get external funding. In the first option it would be hard to expand internationally because the financial resources were scarce. With external funding, the company could continue developing the product and expand to other markets.

Regarding the divestiture options, for Closer to continue with its goal of being an innovative company, it should find another "star" to invest on. Some pros and cons of the three options are:

	Sell-off	Spin-off	Equity carve-out
Pros	- Closer can allocate its resources to more profitable businesses - Possibility to sell Evalyze at its highest value possible - New firm could have more resources to make Evalyze grow	- A new company, independent of Closer, will be 100% focused on the growth and development of Evalyze - Closer's portfolio would be shortened. Being less diversified, possible information asymmetries are mitigated, making Closer more transparent - Closer can keep the connection with Evalyze, acquiring it back if the results are positive	- The new company is financially separated from Closer, but Closer continues having majority of shares - Evalyze can gain new resources due to the increase of capital - There will be more market transparency
Cons	- Closer loses all control over Evalyze - If Evalyze turns out a success, it will be harder for Closer to bring it back to its portfolio	- Evalyze's new company would not have the brand recognition of Closer - Need to go through negotiations with clients	- The new company has new shareholders that can have different interests, creating conflicts between the parties - Closer still has to focus on Evalyze's business

Table 2 - Divestiture options

If Closer decides to continue investing in the product, the pros and cons of the two options are:

	Using firm resources	Getting external funding
Pros	- Closer would keep its independence and not increase its debt	- Evalyze could have its own team and more resources for its development - Closer would be able to expand Evalyze to other markets - The other areas could use their profits for their own development
Cons	- It would be hard to continue the development of Evalyze - Other areas would continue in the background - The sustainability of the company would be in risk	- Closer could lose part of the control over the product

Table 3 - Investment Options

6. **What are your recommendations for the management of the company?**

The company is confronted with two alternatives, one of continually investing in Evalyze and another of divesting the product. Possible recommendations need to take into account the opportunities for Evalyze in the market, given Closer's resources and capabilities and its strengths to neutralize potential threats faced.

Although divestiture is an option, it's important to take into account that the past and current performance is not a good indicator of future performance. Particularly in Evalyze's case, since it is an innovation it may require time to gain recognition in the market. The poor results of Evalyze can be turned around and the product may start to be the major source of profit for Closer. Hence, when developing a strategy, the company should give more weight to the variables that can influence the future performance of Evalyze. And, even though there are several challenges, growth opportunities can also be founded and exploited.

Therefore, it is reasonable to recommend to the company to continue investing in Evalyze. Following this alternative, Closer would need to focus on the long-term, foregoing short-term profits, as the prospects of growth in the long-term are higher. Likewise, it would continue being a diversified company and pursuing its purpose of providing innovative products to its clients.

The first step would be the establishment of a secure market position for Evalyze. To set up this position, Evalyze's exclusive strengths would need to be exploited. One of these strengths is its advanced technology that provides the best productivity and efficiency rates for contact center operations. This strength can give Closer the advantage of being the first-mover in the market since none of the existent competitors is using AI. Having established a position is then easier for the company to control the market and maintain clients' loyalty.

Closer would need to continue innovating and upgrading Evalyze since imitation is a risk. The aim should be to focus on having a sustainable competitive advantage, which is possible if Closer takes advantage of the most valuable and rare features of Evalyze.

Besides all the focus on Evalyze, Closer also needs to take into account the sustainability of the whole company, establishing limits to the resources allocated to the product and looking for the best ways of extracting value from all its businesses.

Finally, Closer could address the issue of its capacity to expand Evalyze internationally. The company needs to carefully evaluate if it owns the resources and capabilities needed to establish an international position with Evalyze. Expanding overseas would involve a great amount of resources. Consequently, the company would need to assess how its relevant resources and capabilities could be transferred or replicated in the new markets. Additionally, it would be difficult for the company to continue using only its own funds, as internationalization would involve a high investment along with the investment needed to continue upgrading the product. Therefore, Closer should find some external financing in order to have enough resources to keep the other areas operating, while expanding Evalyze overseas markets.

Before making this decision, the company needs to weigh the risks and the returns. Despite being harder to expand internationally without financing, getting external financing carries high risks for the company, either in terms of cost of debt or of losing control on the decision-making process, in the case of selling equity.

In what external funding is concerned, Closer should go for a loan. If Evalyze turns out to be a success, it will pay for the debt cost without scarifying control over the business or sharing its profits with outside investors.

7. **If Evalyze is to go international, which direction and strategy should Closer adopt?**

To design an international strategy and establish a direction, different key issues need to be addressed. Firstly, it's necessary to define how the business will operate in the international market. Subsequently, the company needs to consider where and how to enter.

To determine how the business will operate, the Bartlett & Ghoshal model (2002) can be used. The model defines four different types of strategies, based on the expected levels of global integration (how important is standardization in order to operate efficiently?) and local responsiveness (do clients expect the product to be adapted to the local market?) (TN Exhibit 6).

Evaluating these different types of strategies in Closer's case, distinctive results are reached:

- Multi-domestic – With this strategy companies need to tailor and customize their products in order to meet the requirements of the different markets. For Evalyze this would not be a good strategy, as the need to tailor the product to the local markets would involve unnecessary costs. Since this is a platform that only distributes and optimize back office activities, there would be fewer benefits for clients and for the company in adapting the product to each market.
- Global – With this strategy Evalyze would be standardized worldwide and Closer would maximize its efficiency in order to reduce costs. The subsidiaries would be dependent on the headquarters as they would only implement the product. Since contact centers

operate similarly worldwide, this could be a suitable option. The adaptation to the local markets would not be a high requirement thus costs would be reduced.

- Transnational – This strategy leads companies to exploit local responsiveness while achieving benefits from global integration. The subsidiaries are integrated and interdependent, resulting in the exchange of expertise and knowledge. This could be seen as the optimal option for Evalyze, as the product would gain by sharing the expertise from different countries and would be globally integrated, while keeping its core objective. Evalyze would continue to be standardized but there would be also some customized features to provide a unique product to the clients from different markets. However, this would have some additional costs.
- International – In this strategy operations are kept at the headquarters and the subsidiaries function as local channels. This could be feasible for Evalyze if Closer wants, for example, to only license the product. Consequently, the development would occur at the headquarters and Evalyze would be implemented by the companies acquiring the license.

All strategies could be adopted by Closer to start operating with Evalyze internationally, except the multi-domestic strategy. Firstly, Closer needs to understand how should Evalyze be positioned and evaluate which strategy would bring more advantages for both the product and the company. In this case, one of the major advantages would be the shared expertise and knowledge.

After deciding on how to operate, the company should consider where to internationalize Evalyze. Closer has the option of taking Evalyze to the countries where it already has an office and the management team knows of potential clients. Nonetheless, when finding a market to enter, the most important should be to extract the maximum benefit of the firm's capabilities. Closer can generate a higher profit from Evalyze implementing it in larger companies, which can be an important factor when deciding to which country to enter first.

Another factor that is usually considered is the physical distance. However, in Evalyze's case, this is not a major problem since this is a software and most things can be done remotely from the headquarters. The company only needs to take into account that there are some countries with a different culture and, in these cases, the need to adapt to clients' requirements may exist. Additionally, there could be a problem of adapting to technology in less developed countries. Therefore, Closer could start opting for the European markets where it already has operations and it is possible to make the most of Evalyze. Afterwards, given the success obtained in those countries, the company can think about expanding to other countries, since it may already have more financial resources to support the costs associated with the establishment of operations in countries where Closer doesn't have any operation yet.

Lastly, the how to enter issue. When deciding the way of entering, Closer is confronted with different alternatives. Given Evalyze's characteristics, trade is not a reasonable form of entering overseas markets. Consequently, the company needs to internationalize via direct investment, despite the required high level of funding. The direct investment can occur in different forms, such as, wholly-owned subsidiary, joint venture, or contractual joint venture. Additionally, Closer can opt for a licensing agreement which carries no substantial costs.

All these forms differ in the levels of control, integration, and local knowledge requirements. Closer needs to choose the best form of entry based on the resources and capabilities needed to control the overseas subsidiary and on the expected value that will be obtained. This evaluation needs to take into account the resources and capabilities that Closer already has and those it needs to acquire.

8. **Analyze and compare the different entry modes Closer can adopt and their expected results.**

Closer can take Evalyze to overseas markets through a wholly-owned subsidiary, joint venture, contractual joint venture, or licensing.

Since a contractual joint venture is similar to a joint venture but the first is a short-term oriented strategy, only the joint venture will be analyzed. Evalyze is an innovation and it's hard for the company to promote and implement it focusing on the short-term. Accordingly, the remaining three alternatives will be analyzed:

	Wholly-Owned Subsidiary	Joint Venture	Licensing
Control	Full	Medium	Little
Disadvantages	- High investment - Closer bears all costs - Closer has no local knowledge	- Closer needs to invest in searching for the right partner - Possible conflict of interests between the parties	- Closer has fewer opportunities to learn
Advantages	- Complete oversight over operations - Closer only has to replicate what it already does	- Closer can benefit from synergies - Expertise sharing - Access to distinct resources	- No substantial costs - Evalyze gains visibility

Table 4 - Market Entry analysis

Licensing is not the best option for Closer. Even though it is the one with lower risks and that requires no investment, it would not allow the company to control the product. If afterwards Closer decided to stop licensing and operate directly in the given country, clients could not associate the product to Closer. Furthermore, opportunities for learning would be limited, thus the company would not take high benefits from this mode.

Opting for the wholly-owned subsidiary mode, Closer could start commercializing Evalyze in countries where it already has operations. This way, the initial investment to start operations would not be needed and Closer would only need to make investments related to Evalyze. Additionally, there would not be the need to create partnerships and Closer would have full control over the product. Later, if Evalyze generates good results, the company can use the money to finance the entrance in new countries.

There could also be the scenario of Closer wanting to enter with Evalyze in countries where it doesn’t have operations yet. In this case, entering with a wholly-owned subsidiary would involve high risk, since it would involve a massive investment and Closer would need to support all the costs. Given that the company’s results are invested in R&D, Closer would need to obtain external financing for this expansion investment.

On the other hand, with Closer opting for a joint venture, its control would be limited and all the results and risks would be shared with the partner. With this option, Closer would have access to more resources and capabilities, which could be useful for the upgrading and development of Evalyze. If the joint venture is successful, the company can afterwards use the results to enter new countries through a different mode.

In conclusion, the best entry mode for Evalyze would be wholly-owned subsidiary in the countries where Closer already has operations, since the investment required would be minimal and the company would keep full control over the product. Opting for countries where Closer doesn’t have operations yet, the best mode would be a joint venture, as the company could share the investment needed and it would still gain with the exchange of expertise.

Conclusion

Closer was founded in 2006 followed by many years of innovation-based growth. However, in 2019, the company was confronted with the decision of whether or not continuing investing in its major product, Evalyze. Different alternatives were considered, but the dependency on external factors was the main problem. Therefore, Closer needed to decide if it should continue investing in Evalyze and possibly expand it internationally or disinvest the product and find other paths to guarantee the sustainability of the company.

The development of this Thesis allowed me to understand and to get involved in real-life problems that companies face when making decisions. Managing a company and guaranteeing its sustainability and growth involves huge challenges. This work helped to develop my knowledge and critical thinking about how should we manage the challenges and try to avoid making mistakes that can jeopardize the future of the company.

The analysis of the Case Study allowed me to apply strategic concepts and frameworks for the identification of the different options available to Closer. Nonetheless, it was a challenge to make recommendations since there is high uncertainty about the future and potential success of the product.

Given this uncertainty, this case may be useful as a vehicle to open a discussion on the paths that the company can follow. Several perspectives can be analyzed, since this is a common challenge faced by companies with diversified portfolios. Issues related to different scenarios of divestment, external financing, and internationalization can also be addressed.

Closer had resources and capabilities that could provide it a sustainable competitive advantage. Consequently, despite all the challenges ahead of Evalyze, the company can take advantage of its strengths and exploit market opportunities in order to design a strategy for Evalyze's sustainable growth.

The recommendation I made was for Closer to continue investing moderately in Evalyze. The product's growth may imply expanding it internationally, thus Closer should start commercializing it in the countries where it already has operations. Afterwards, depending on the success in those countries, the company can rethink its strategy and expand to other countries.

Exhibits

Exhibit 1 - Examples of companies with which Closer worked

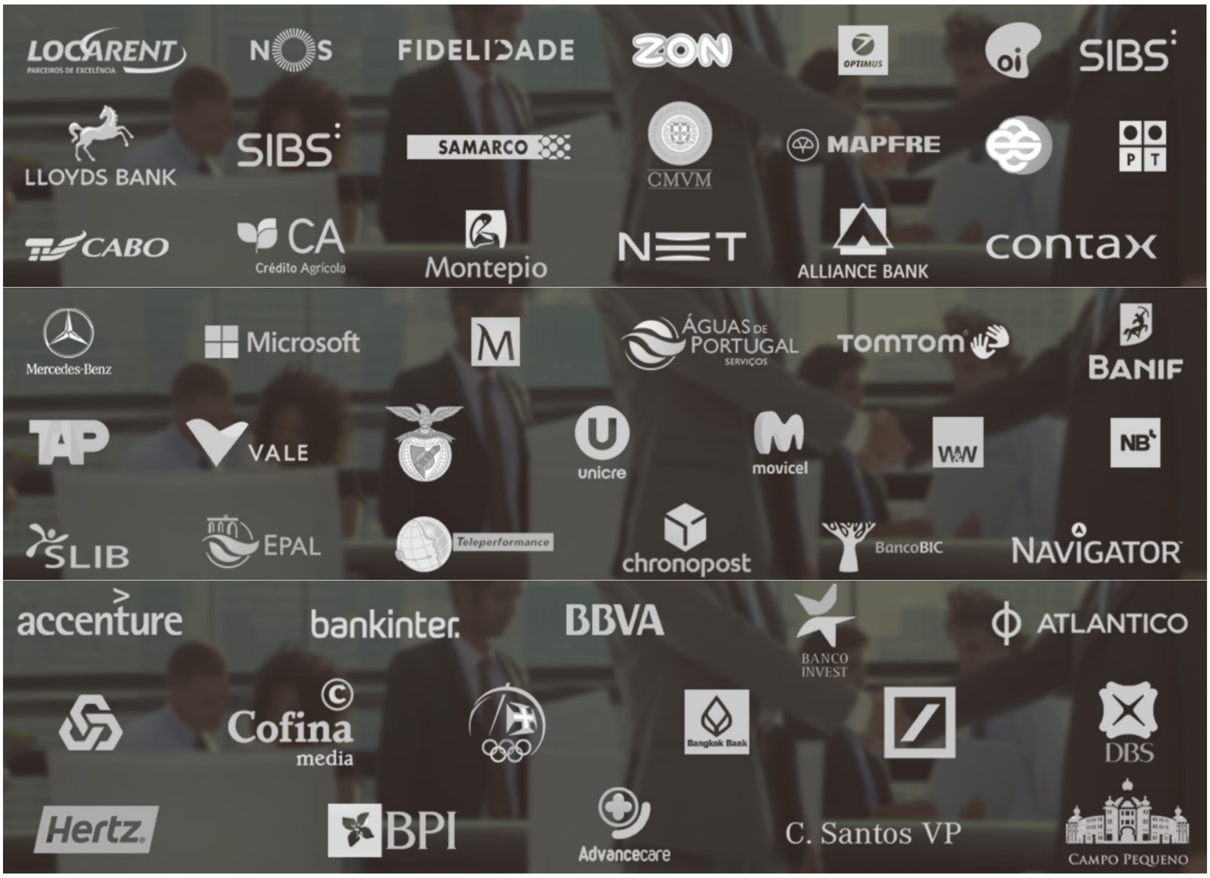


Exhibit 2 - Closer Results in 2017 and 2018

	Consulting	Outsourcing	Nearshoring	Total
Revenues in 2017	1,747,795.28	3,903,003.57	598,265.63	6,248,064.48
Revenues in 2018	3,491,887.33	3,712,660.65	648,602.25	7,853,140.23
% EBITDA in 2018	22%	11%	-	

Exhibit 3 - Closer Journey

Exhibit 4 - Closer Offices

Exhibit 5 - How does Evalyze work?

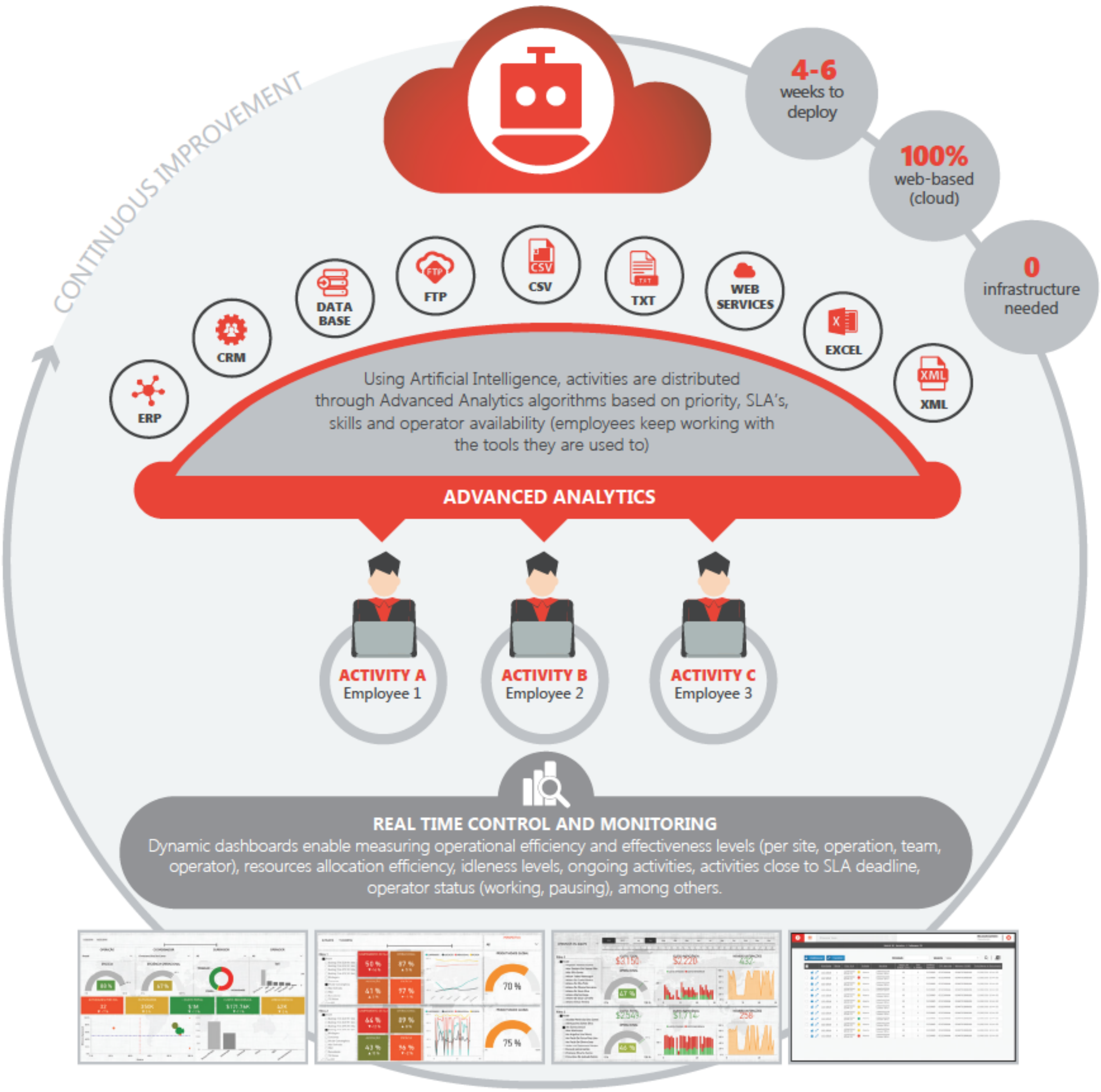
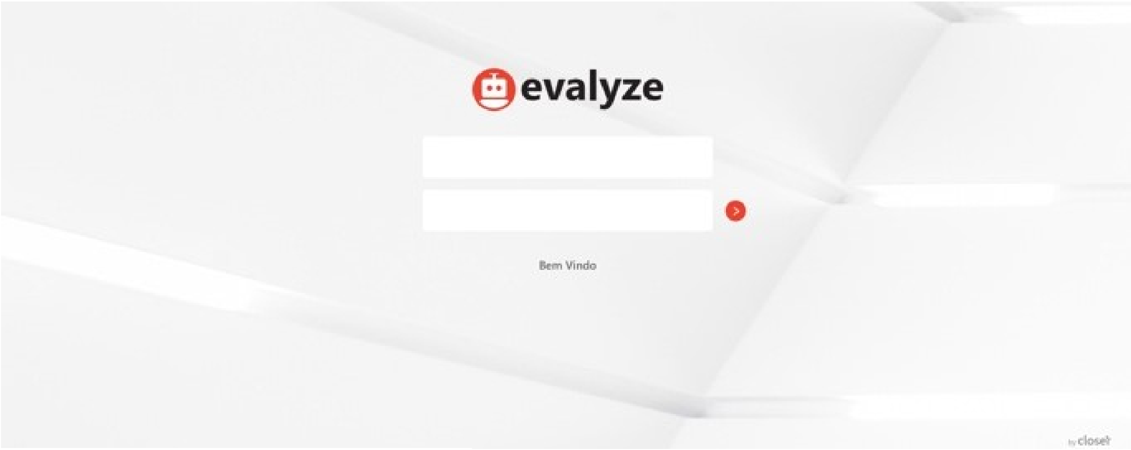
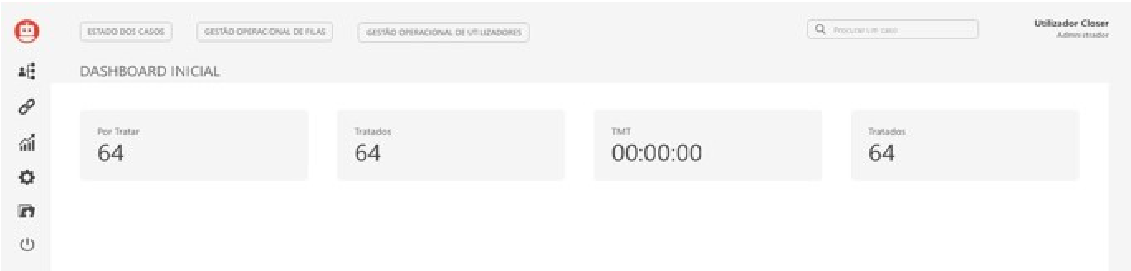


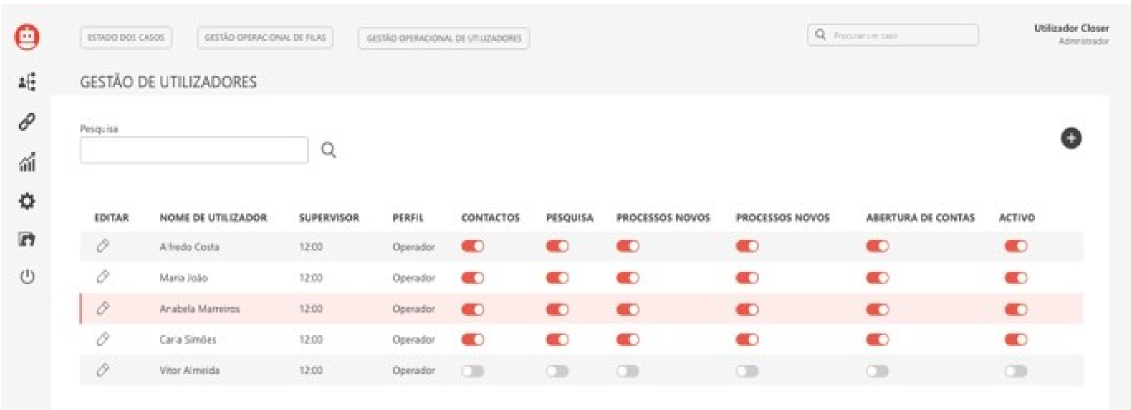
Exhibit 6 - Evalyze Templates



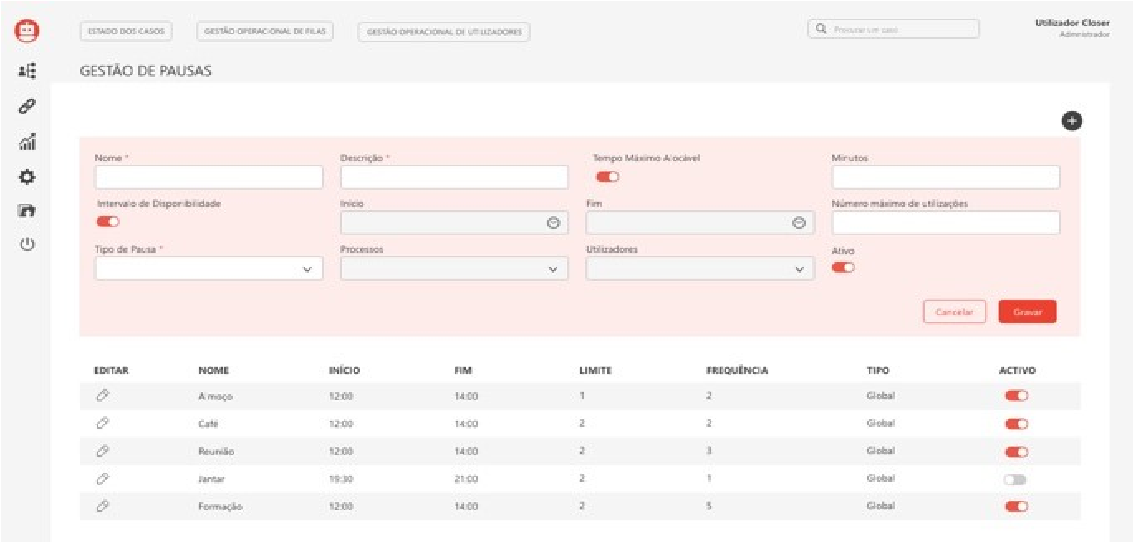
1 – Login



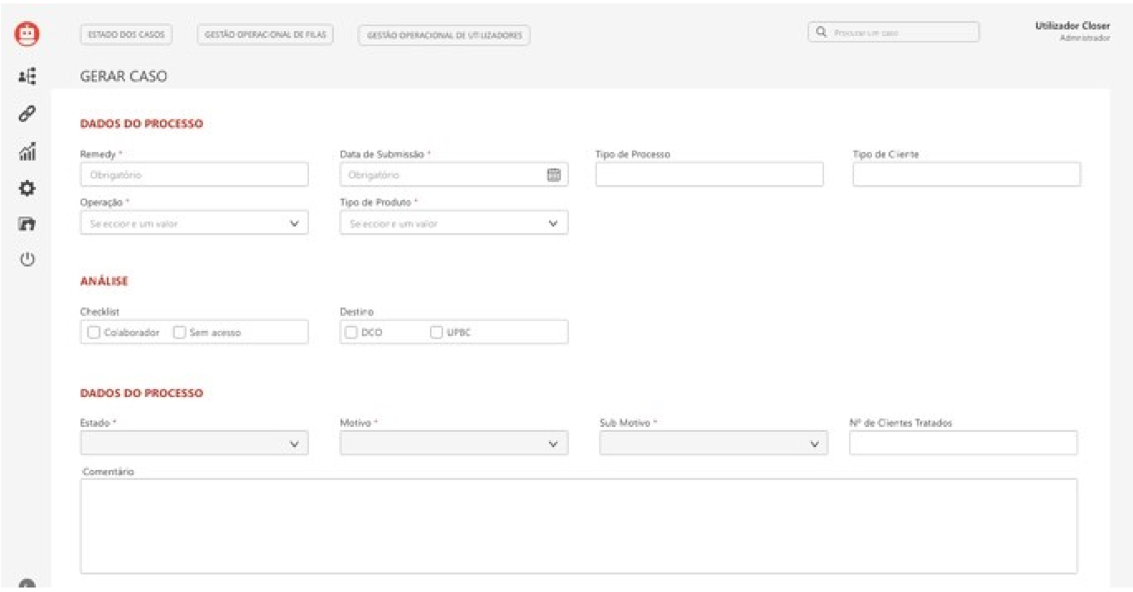
2 – Dashboard



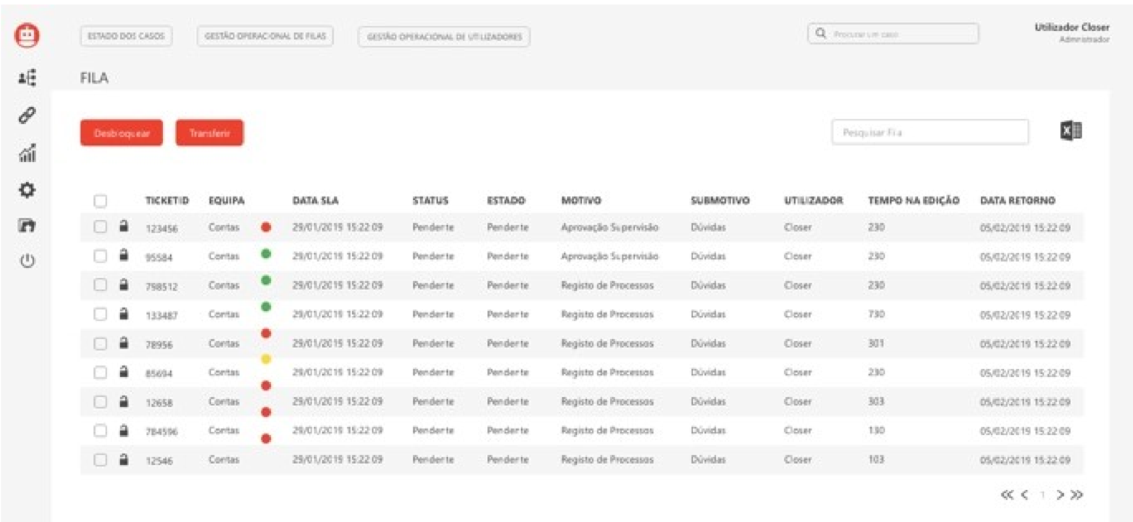
3 – Users Management



4 – Breaks Management



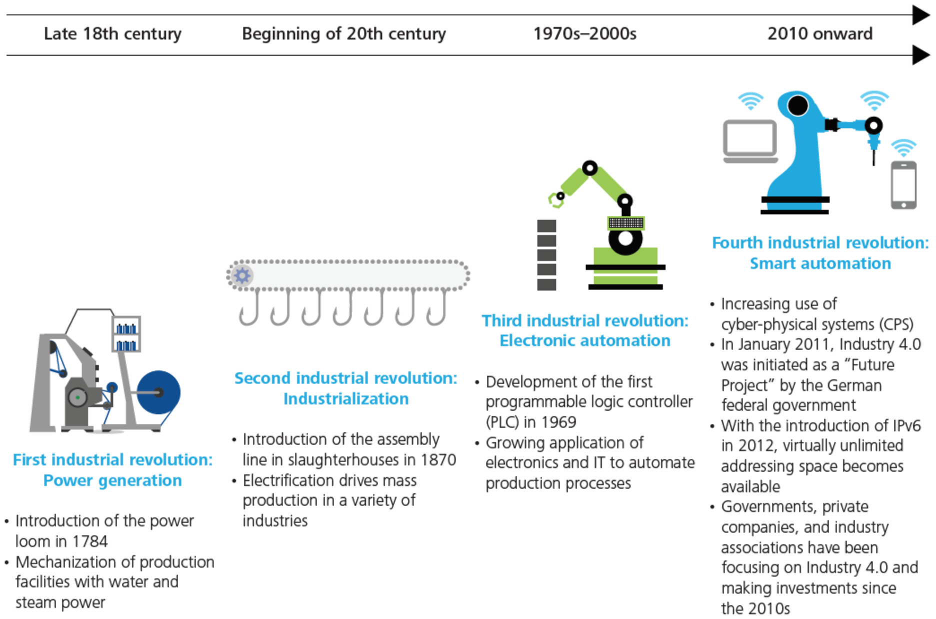
5 – Case Form



6 – Pending Cases

Literature Review Exhibits

LR Exhibit 1 - History of industrial revolutions: Industry evolution with key developments[3]



LR Exhibit 2 - Industry 4.0 business objectives[4]

BUSINESS OPERATIONS	Productivity improvements	• Maximizing asset utilization and minimizing downtime • Driving direct and indirect labor efficiency • Managing supply network costs and synchronization • Ensuring schedule and plan stability and accuracy
	Risk reduction	• Ensuring raw material price and availability • Managing warranty and recalls effectively • Mitigating geographic risks
BUSINESS GROWTH	Incremental revenue	• Finding sources of growth for the core business • Growing aftermarket revenue streams • Deepening customer understanding and insights • Strengthening customer integration and channels
	New revenue	• Creating new products and service offerings • Expanding internationally and in emerging markets • Indentifying attractive M&A opportunities

[3] Source: Sniderman, B., Mahto, M. & Cotteleer, M.J. 2016, 'Industry 4.0 and manufacturing ecosystems', *Deloitte University Press*
[4] Source: Sniderman, B., Mahto, M. & Cotteleer, M.J. 2016, 'Industry 4.0 and manufacturing ecosystems', *Deloitte University Press*

Teaching Note Exhibits

TN Exhibit 1 - Three main types of resources[5]

RESOURCES

TANGIBLE	INTANGIBLE	HUMAN
• Financial (cash, securities, borrowing capacity) • Physical (plant, equipment, land, mineral reserves)	• Technology (patents, copyrights, trade secrets) • Reputation (brands, relationships) • Culture	• Skills/know-how • Capacity for communication and collaboration • Motivation

TN Exhibit 2 - VRIO Framework[6]

Is a Resource...

Valuable?	Rare?	Difficult to Imitate?	Supported by Organization?	Competitive Implications
No	-----	-----		Competitive Disadvantage
Yes	No	-----		Competitive Parity
Yes	Yes	No		Temporary Competitive Advantage
Yes	Yes	Yes		Sustained Competitive Advantage

[5] Source: Grant, R.M. 2016, *Contemporary strategy analysis: text and cases*, Ninth Edition, Wiley, Chichester, West Sussex, United Kingdom.
[6] Source: Barney, J. B. & Wright, P. M. 1997. *On becoming a strategic partner: The role of human resources in gaining competitive advantage.* Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies, Ithaca, NY.

TN Exhibit 3 - TOWS Matrix[7]

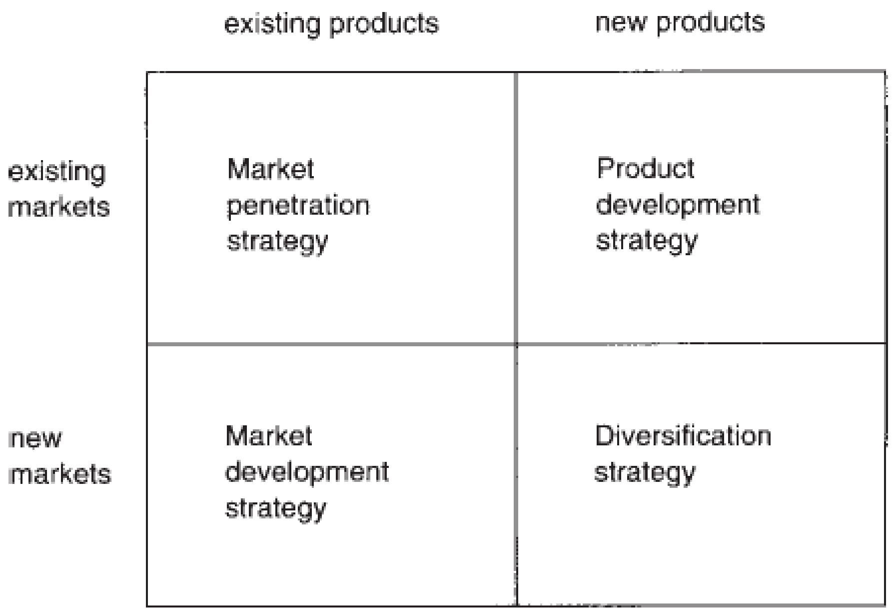
	Strengths	*Weaknesses*
Opportunities	Maximize on strengths and opportunities	Maximize on opportunities, minimize on weaknesses
Threats	Maximize on strengths, minimize on threats	Minimize on weaknesses, minimize on threats

TN Exhibit 4 - Closer's SWOT analysis

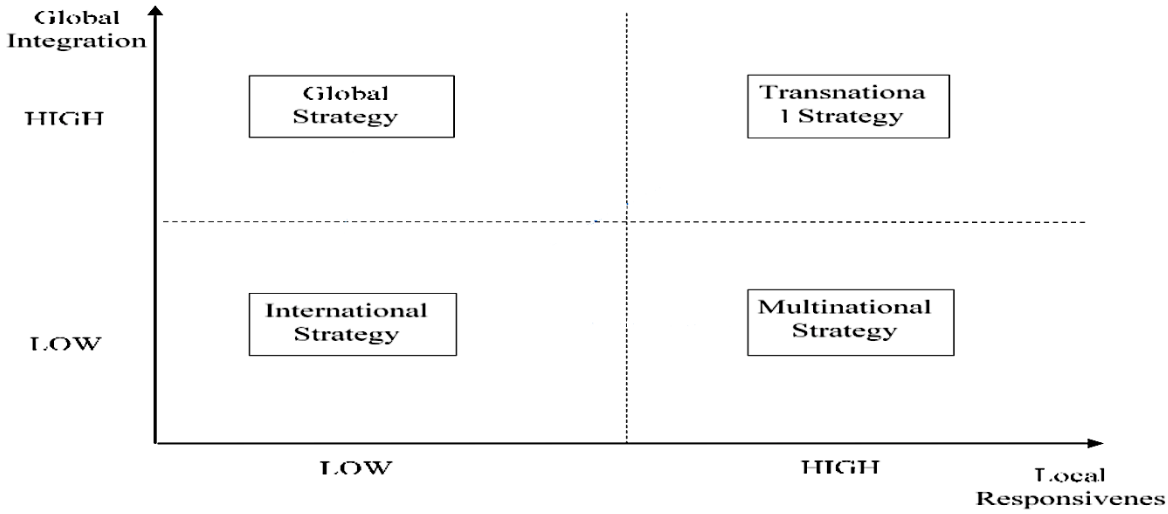
Strengths:	**Weaknesses:**
- Top-quality product with the best productivity rates in contact centers - Employees with advanced know-how, aiming to constantly optimize the product - Provides a decrease of errors and an optimization of the resources needed in contact centers - Accessible everywhere, leading contact center operations to be more efficient	- Requires a high and continuous investment to stay updated - Requires clients to switch from competing traditional products, which would involve high costs - Limited resources available for Closer, without a specific team for its development
Opportunities: - Limited competition from products using AI - Industry 4.0 growing - Market demand from companies wanting to improve their performance and efficiency	**Threats:** - Risk of imitation if the existing competition starts using AI - Slow adoption pace on the European markets - Clients interested in trying Evalyze, with low budgets

[7] Source: Proctor, T. 2000, *Strategic marketing: an introduction*, Routledge, London, New York.

TN Exhibit 5 - Ansoff Matrix[8]



TN Exhibit 6 - Bartlett & Ghoshal Matrix[9]



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8 Source: Proctor, T. 2000, *Strategic marketing: an introduction*, Routledge, London, New York.
9 Source: Le, U. M. & Liao, T. S. 2018, 'A Dynamic View of Global Integration and Local Responsiveness Framework', *International Journal of Emerging Research in Management and Technology*, vol. 6, no. 8, p. 58.

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