ADDON+ Network: Tackling the downfall of the Turkish market

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Business strategy case study

Dissertation written under the supervision of professor Nuno Magalhães Guedes

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Abstract

Title: ADDON+ Network: Tackling the downfall of the Turkish market

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The Case Study presented in this Thesis addresses the path of a small Portuguese architecture firm called ADDON+ specialized in designing projects for large shopping centers. Its operations were focused on Turkey, and the company faced a big challenge when its main market collapsed. The reason for the collapse was the political instability felt in Turkey around 2016, that led to major economic problems and a depreciation of their currency.

The Case Study allows for discussing topics such as risk management, competitors' behavior, market structure, internationalization problems, differentiation and positioning.

The Master Thesis includes a Literature Review of subjects related to the main issues of the Case and a Teaching Note to help instructors prepare for the in-class discussion of the Case.

The main conclusions can be summed up as the necessity for managers to be aware of changes in the market and the need to diversify income sources, so that the exposure to negative industry characteristics or to external factors is limited.

Resumo

O Case Study apresentado nesta tese aborda o percurso de uma pequena empresa de arquitetura portuguesa chamada ADDON+ Network que era especializada em projetos para centros comerciais. Suas operações estavam focadas na Turquia e foi lá que a empresa enfrentou um grande desafio quando seu principal mercado entrou em colapso. Este colapso foi causado por problemas de instabilidade política sentidos na Turquia por volta de 2016, o que levou a problemas económicos e a uma desvalorização acelerada da moeda turca.

O Case Study permite discutir temas como gestão de riscos, comportamento dos competidores, estrutura de mercado, assim como problemas de internacionalização, diferenciação e posicionamento.

Esta Dissertação de Mestrado inclui uma Revisão da Literatura de assuntos relacionados com as principais questões do Caso e da Teaching Note de maneira a ajudar os professores a se prepararem para a discussão do Caso em aula.

As principais conclusões que podem ser tiradas são a necessidade de os gestores estarem atentos às mudanças do mercado e também a necessidade de diversificar as fontes de rendimento, de modo que a exposição às características negativas do setor ou até a fatores externos seja limitada.

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Case study

It was at the beginning of the summer of 2016 that Frederico Carvalho and his partner Tiago Palmela, founders and senior architects at ADDON+ network, received a negative response to their proposal for an architectural concept of a shopping mall in Istanbul. This was the fourth time in a row that their proposal for a project was turned down by their Turkish partners.

ADDON+ network was a company that specialized in architectural concepts and design supervision of office buildings and shopping centres. It was founded in November 2011 in Lisbon, Portugal, when Frederico and Tiago left their previous employer to create their own firm. The Turkish clients they had worked with in their previous company went along, enabling ADDON+ to grow fast, achieving more than €500 thousand in revenues in the first 2 years.

However, the political instability and economic problems that hit Turkey in the years prior to 2016, led to a big drop in the value of the Turkish Lira and Turkish clients couldn't pay ADDON+. At the same time, local architecture firms started to charge much lower prices. All this scared Tiago and Frederico since the loss of important projects was slowly pushing them out of their main market.

The bad news that Frederico and Tiago had just received about the Istanbul shopping mall made all the alarm bells ring in their minds. It was time to come up with a different way to lead the company to a brighter future.

The beginning of ADDON+ Network

Prior to the creation of ADDON+, Tiago and Frederico were colleagues in an architecture firm where they both worked in designing for the Turkish retail market. After 6 years of working together, they felt that their professional potential was not being recognized up to their expectations by their employer and started thinking about creating their own firm.

They considered that they would be able to pull it off due to the close relationship they had developed with their Turkish clients. Tiago and Frederico were the faces of the company, they were the ones who dealt with each client personally and that enabled them to create strong relationships with key people. Both colleagues thought that the major clients would still prefer to work with them even if in a different company. The clients were "used to and pleased with" their work as Frederico said. Both architects felt confident that clients would follow them to their new company.

Besides the good relationships established with the main clients, the two colleagues felt they had another advantage in Turkey. They had been working for that country for the previous 6 years, gaining a deep understanding of the characteristics of that market. When designing buildings, it was important to know the culture and the standards of the country. As Frederico said, "buildings in Portugal have some key differences from buildings in China, for example. It is crucial to know who you are working for". Believing they had that crucial knowledge, the founders went for the creation of ADDON+ Network.

Tiago and Frederico were told by one of their previous clients that they were thinking about starting a project to build a Shopping centre in Malatya. "This was a great opportunity for us and was the perfect jumpstart for a new company," said Frederico.

The two colleagues got ready for work and assembled a small team to finally start their own company. They were both in their forties and having studied and lived in Lisbon for most of their adult life, they felt ready to start a new chapter. The first step they took was partnering with an old friend to help them in setting up the company. This friend, Luís Stone, was a graphic designer who was called to help create the image and the values of the company. They started meeting up every other day to clearly define the company's principles and look. Their goal was to create a company that enhanced services on the existing panorama of international architecture, based on an innovative approach. Thereby, Luís become a partner and they all agreed on two main ideologies. 1) The company would be a platform for sharing ideas and concepts from associate companies with complementary visions. This would integrate companies from different areas sharing the principle that the whole would be bigger than the sum of its parts. 2) The major focus had to consistently be on adding value to all the proposed projects.

Finally, by the end of 2011, ADDON+ was founded in Lisbon with no funding other than around 5000 euros of Tiago's and Frederico's savings (see exhibit 1 for ADDON+ logo). In the beginning, they were able to secure the Malatya project which enabled the newly born company to immediately acquire some visibility in the Turkish market as well as some financial stability. "Such a big project was only the beginning, Tiago and I had the willingness to drive this company forward," said Frederico while smiling and reminiscing on old times.

Malatya was an 800.000 people city in the Eastern Anatolia region and the proposed project would be for the largest shopping centre in town. The client was Corio, a Dutch property management company that had a branch in Turkey. The two founders had worked with it previously, so it was a natural partnership. This initial project came with the need for Tiago and Frederico to go to Turkey twice to visit the ground and the surroundings so that they could adapt the project to the city culture. This also enabled both colleagues to expand their stay in Turkey and schedule meetings with some of the clients that they had previously worked with, in order to officially present the new company in hope that more projects would follow.

ADDON+ was created focused on the international market and mainly in Turkey. The partners obviously thought about working for their national market, but the company was founded right at the beginning of the Portuguese financial crisis. From 2010 to around 2014 the Portuguese economy was marked by intense austerity policies and by economic stagnation. Portugal was unable to repay or refinance its government debt without the assistance of third parties. To prevent an insolvency situation, Portugal applied in April 2011 for bail-out programs that came with strict austerity measures leading to almost no investment and no potential projects for ADDON+.

ADDON+'s strengths in the Turkish market were not only based on good relationships with clients and knowledge of the market but also on some added value that their competitors were not able to bring to the table.

In 2011 in Turkey, ADDON+'s main competitors were Spanish, Italian and English firms, however, they worked in a different way from the Portuguese company. These international companies only worked from their country by sending the design concept to their Turkish clients. ADDON+ Network's different approach consisted in doing the design concept and conjugating that with site supervision, monitoring the construction process. That way, they responded quickly with adjustments for problems that might arise. Frederico also mentioned that this way of working made sure that their concept was being well interpreted by the engineers and the construction team. This required travelling regularly to the construction sites and following closely the progress being made by discussing with the construction manager possible changes or corrections. These twice a month visits were normally 4 to 6 days long. Frederico and Tiago viewed this as a cost in order to assure the best possible results. "Both me and Tiago had families that we didn't want to leave behind for that long, but it was a must in order for ADDON+ to outperform the competition" said Frederico.

Besides design concept and site supervision, the company also offered services like initial viability studies, where they would evaluate the possibility of starting a project in a specific place and time, and building consultancy in order to provide a consistent follow up after the construction of the project. ADDON+ wanted to be perceived as a company that added more and therefore worked under several pillars that structured its way of working and dealing with clients. According to Frederico the goal was to create a team that had a harmonious balance between experience and new ideas to achieve feasible and sustainable creativity, with a "glocal mindset" in order to boost the local culture and identity combined with global successful solutions. The founders intended ADDON+ to be a business partner on all processes, helping clients to evaluate strategies and providing the necessary elements for them to adopt sustainable decisions. Frederico also highlighted the importance of having dynamic teams that perceived every possible modification on ongoing projects as an opportunity to improve the final solution.

First years in Turkey

When ADDON+ was founded, the real estate market in Turkey was characterized by its rapid growth. There were huge investments and Turkish firms were keen on working with foreign architects. There was an effort to modernize designs in new constructions, that local firms could not provide. Their concepts were more traditional and less exotic than what the clients wanted. Frederico and Tiago were able to fill that gap and make the most of their innovative ideas.

Frederico was sure that, "Turkey was the right choice". He explained that it was a familiar place for them and where big projects were available. In his opinion ADDON+ would not get the opportunity to work on such big projects if they worked only for the Portuguese market.

The Malatya Shopping centre was the first project that Addon started working on, but unexpectedly the project was dropped by Corio. After some further evaluation, by June 2012, the property management company came up to the conclusion that the project should not proceed. Although this was a setback for ADDON+, Frederico and Tiago didn't view it as a major problem. At this time, they had already secured some other projects that gave them the flexibility not to worry too much about the loss of that one.

By the end of the first year, ADDON+ was already working on 5 different projects with 4 different clients, which the founders considered to be a successful path.

One of the most important partnerships that the company established was with Turkmall, a Turkish retail promoter; and Multi Development, a Dutch real estate firm. These two companies partnered up since Multi Development wanted to enter the Turkish market and needed a local partner to open a company in Turkey. They ended up creating a company called Multiturkmall and they became one of the major players in retail construction in Turkey.

ADDON+, had worked in the past with Multi Development and secured an important deal with them. Multiturkmall only constructed shopping malls and they needed to find financing for their constructions. Therefore, they would present the project to banks or private investors in order to have the money to start the project. The work of ADDON+ consisted in doing the illustration and characterization of the layout of the project to be presented in those meetings. (See exhibit 2 for examples of some projects made for Multiturkmall). Since Multiturkmall had a global presence there were opportunities to work for projects in countries other than Turkey, such as Egypt, South Korea and Georgia. The first layout was conceived by the Turkish company but needed some refinement in order to be clearly presented. This partnership was a great opportunity for ADDON+ because it was paid every month and the architects did not need to travel to Turkey to do this type of work. Since the presentations were made by Multiturkmall people this was a "low effort, high reward deal" as Frederico put it. "This gave us the much-needed income stability and gave the company the possibility to choose more carefully what projects to work on".

Despite the huge importance that Multiturkmall had on the beginning of ADDON+ and on its stability, Esas Gayrimenkul quicky gained the place as the biggest client for the Portuguese company. This was a big real estate company that also owned the aviation company Pegasus. It was a big player in the market and a crucial part of ADDON+'s operation by the end of 2012.

The two founders were able to secure this opportunity because they had already worked with one of the company's directors. "Most of ADDON+'s new projects came from word of mouth," said Frederico. The network they were able to create in Turkey proved to be an important pillar for the acquisition of new projects. The first project for this client was a shopping centre in Kocaeli starting in November 2012. This city was located in the Sea of Marmara, about 100 km east of Istanbul, and had a population of around 370,000 in the city centre and more than 1 million in the metropolitan area. This was not one of the major cities in Turkey, but it was a relevant project for ADDON+. When starting this partnership with Esas Gayrimenkul the Portuguese company quickly had to increase its number of staff from 3 to 6.

Burda 41 was the name given to this shopping center. In Kocaeli this was a key development for the region with a total of 58.000 $m^2$of gross leasable area (GLA) and 133.000 $m^2$of gross construction area (GCA). ADDON+'s design was inspired by the natural surroundings of

Kocaeli. The shopping centre was divided into 3 main areas, each of them a square, connected by a continuous mall on two floors. Each of this squares was inspired by the Sea of Marmara, the Marmara Island and its harbour. Frederico said that the mall intended to represent the fluidity of the water that connected all these spaces (see exhibit 3 for photos of Burda 41). This project represented a big part of the initial revenues of the company. The contract was signed for €365 thousand for the whole project plus travel expenses, making it the biggest contract ADDON+ signed up to that time.

During the following years, 3 shopping centres were added to the business with Esas Gayrimenkul, cementing this partnership as one of the most relevant for ADDON+. In 2013 one in Bolu with a retail area of 36.000 m^2, generating an income of around €300 thousand. In 2014 another in Çanakkale, a coastal city and the nearest major urban centre to the ancient city of Troy, with a development of 58.300 m^2 of retail area and cinemas located at the Çanakkale seafront, priced at more than €130 thousand. The last big shopping centre made in partnership with Esas was in Balıkesir and ended in 2015 and generated an income of €250 thousand.

With other smaller projects for this client the revenues amounted to more than one million euros at the end of 2015, representing around 50% of ADDON+ income.

At the beginning all projects were for retail areas but as time went by ADDON+ stared to get projects that included offices and housing complexes, mainly in Istanbul. This diversification in the real estate industry (see exhibit 4) allowed the Portuguese company to have a more stable volume of work leading to another increase in staff to 10 employees in the beginning of 2014. This ability to diversify their scope was a topic that had been talked for a long time between Frederico and Tiago since both colleagues felt that they were too vulnerable by being involved only in the retail design business where they had a small number of clients. Limiting the market to shopping centres would make it even more difficult to the acquire new projects. Adding to that, at that time E-commerce was growing exponentially and both architects thought that it might threaten the traditional way of shopping thus affecting the need for more malls. By broadening the scope of the business ADDON+ would be able to reduce the risk related to the volatility of the real estate market and to diversify its portfolio.

The rising problems in the Turkish market

For 3 years the company was able to make the most out of its position in the market. However, in 2015 the economic panorama in Turkey started to show some notable changes that impacted ADDON+'s business.

At that time, Turkey was living troubled times. Political uncertainty caused by two parliamentary elections in 2015 drove the economy down. After the four main political parties failed to agree on a coalition government, the country was pushed into a second general election. This one was marked by violence and conflicts between the main political parties.

Also, the conflict with the Kurdish people had escalated after a ceasefire between the government of Ankara and the armed Kurdistan Workers' Party (PKK). The peace broke down on July 20th when a bombing attack in Suruç killed 34 people, most of them of Kurdish origin. After some retaliation by PKK's members involved in the killing of 3 policemen, the conflict culminated with the deadliest terror attack in modern Turkey. On October 10, 2015, a suicide bomber killed 103 people and left 500 injured mainly hitting activists of a pro-Kurdish peace rally. Inevitably this led to clashes between state forces and Kurdish militias with largescale airstrikes and troop invasions.

Worsening the situation, there were also some government-led restrictions on the freedom of press and freedom of speech, that aimed to discredit the political opposition and prevent the scrutiny of government policies. The government enacted new laws that expanded both the state's power to block websites and the surveillance capability of the National Intelligence Organization. Also, journalists faced unprecedented legal obstacles as the courts restricted reporting on corruption and national security issues.

Inevitably, these problems lead the country into economic instability. This drove the value of the Turkish lira down with an widespread impact on the country's development, including the real estate industry. The currency had been falling for some time, but it was in 2015 that ADDON+ really started feeling how it affected its business (see exhibit 5 for the Turkish lira exchange rate). From the foundation of the company to 2015 the Turkish lira dropped more than 25% in value against the US Dollar and the forecast was for the trend to go on in the next years.

This downfall turned ADDON+ into an expensive company for the Turkish market. The founders started to notice that it was getting harder and harder to acquire new projects and that Turkish companies were slowly gaining their position in the market. These companies were charging much lower prices for the same job and ADDON+ couldn't handle this. The Portuguese company had bigger costs since it was operating from a foreign country and the travel costs were significant. The lack of projects was also driving these Turkish companies to accept much lower payments. At the end of the day, demand dropping and supply staying roughly the same, it would be necessary to cut prices in order to stay in business.

For the first half of the 2016 year, ADDON+ had only made around €200 thousand which meant a loss of more than 50% comparing for the results of the previous year (see exhibit 5).

Alternative paths

For ADDON+ it was not sustainable to keep working for Turkey with those prices. The local companies had prices that were 50 to 60% lower than what ADDON+ was charging. Even with its robust network, the company was facing serious trouble to find new projects and keep the business going. Up to that time, 90% of the income that ADOON+ generated was coming from projects in Turkey and so an urgent solution was needed.

The email just received about the unsuccessful proposal for the Istanbul shopping mall added pressure to the boiling situation. Frederico, Tiago and Luís had a couple of options in mind, therefore it was time to get together and think about the best way to make ADDON+ great again.

According to Frederico, the team was thinking about three different options to tackle this issue.

The first one was to turn their backs to the Turkish market and try to find their space on the Portuguese retail scene. Moving to Portugal was an idea that was favourably viewed by the three colleagues as the best option. Portugal was now a market that was showing some potential, with large investments being made in the real estate business. Also, they would start to work in their own country, where the company was based, therefore, eliminating some substantial barriers and risks, like language, trips abroad and exchange rate fluctuation. Nevertheless, this was a market where Frederico and Tiago had not been involved for a long time, lacking insights and a network similar to the one they had developed in Turkey.

The second option was to try to keep their position in the Turkish market and hope for a quick recovery. This was the least appealing option, according to Frederico. The value of the Turkish lira had been declining steadily throughout the last years and they did not see any sign of it turning around. Political stability was compromised and that would keep the Turkish lira sinking further down. Nevertheless, with everything pointing towards the exit from Turkey, this option was always on the table said Frederico. “Losing this market feels like losing the company”. Since the beginning this was the central focus of ADDON+ and the foundation of all their major achievements. They would be losing all their market position and their network.

The final option would be to do a mix of both. They thought that the company could still operate with Turkish partners while starting to develop its position in the Portuguese market. This was thought to be a way to minimize the impact of entering a new country and to guarantee some stable income. The idea was to work only in specific parts of each project where the company felt they added the most value, reducing the operating costs and presenting reduced prices that would be reasonable for the Turkish market.

For all these options there was a consensus at the company that they wanted to the diversify their projects instead of focusing only on retail spaces. There was a clear intention to work in a wider range of projects instead of sticking with shopping centres. The market for hotels and apartment complexes in Lisbon was rising and that was a great opportunity that ADDON+ considering if they chose Portugal. The company had already been behind some housing and hotel projects in Turkey where it gained precious experience. However, these were for a completely distinctive market which had different characteristics. This ability to use and “sell” their experience to clients in other countries was what scared the founders the most. According to Frederico, they were afraid that their lack of experience in other markets would affect their ability to acquire new projects in other countries.

There were a lot of opinions and theories being thrown around the office and disagreements eventually came up to the surface. There were too many options to follow and everyone thought their opinion was the right one. According to Frederico, “these are some troubled times”, adding that as employees saw things going south, they got nervous and the vibe in the office changed. “It is urgent to find an alternative quickly!”.

Exhibits

Exhibit 1: ADDON+ logo

ADDON+ WE ADD MORE

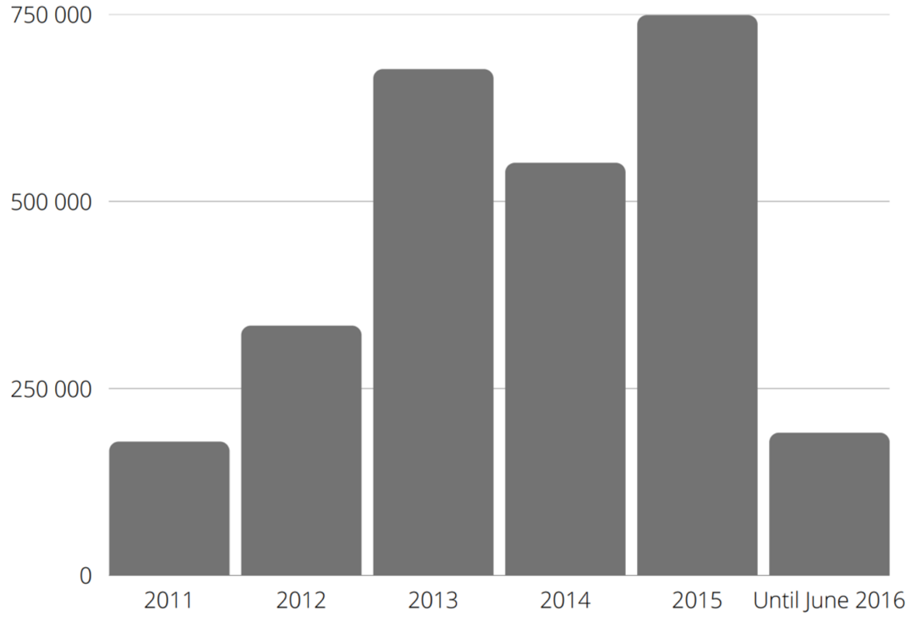
Exhibit 2: Examples of projects for Multiturkmall

Exhibit 3: Photos of Burda 41

Exhibit 4: Examples of ADDON+'s diversified portfolio.

Exhibit 5 – TRY vs EUR exchange rate

Exhibit 6: ADDON+'s revenues in €



Literature Review

In this chapter, relevant topics for the issues raised in the case stay will be addressed. The topics are:

1. The market for shopping centers
2. Adaptation of companies to foreign markets
3. Architecture industry

The review of these subjects will help to highlight the problem of the company in the teaching note and its strategic alternatives.

1. The market for shopping centers

The real estate business is distinguished from almost all others by the fact that its "product" cannot be moved from one place to another, giving this market really specific characteristics that set it apart. For the most part, property owners compete locally for business, where inter-urban competition for industrial, office or retail space exists. (William N. Goetzmann & K. Geert Rouwenhorst 2000).

The growth of the housing stock in the suburbs was essential for the evolution of shopping centres. The rising motorization rate, the consequent dependence on the private transport and the great traffic congestion (Balsas 1999) made it impossible for the crowded central areas of cities to remain as main shopping destinations, enabling the peripheral implantation of the new large shopping centers. Malls ended up gaining a big importance in these areas creating a new spot for social and cultural encounters. According to Gruen (n.d., in Kaminski-Coughlin, 2010:14) "malls were to fill the vacuum created by the absence of social, cultural and civic crystallization points in our vast suburban areas". In fact, although private places, the social function of shopping centres have been recognised in some research (see Wu & Lo, 2018), especially in the suburbs where they "often became community space" (Parlette & Cowen, 2011:795).

Despite being a success as a retail concept, malls are not exempt of devaluation and decline (Chebat, Michon, Salem, & Oliveira, 2016). This process is not inevitable and depends on a variety of factors, such as the size and location of the mall, the existence of competition on the surrounding area (Guimarães 2018). Additionally, online retail is increasingly relevant and is gaining market share from retail concepts such as shopping centres (Fung, 2018). In fact, with internet and e-commerce, retail is suffering major and diverse transformations which are affecting physical locations (Briel, 2018; Verhoef, Kannan, & Inman, 2015).

1.1 Shopping centre within an online world

Over the last few years E-commerce has grabbed the headlines and gained a place on worldwide consumer shopping habits. This new way of buying has been subject of intense debate and is affecting the retail property market. Opinions vary widely on this impact but there is no doubt that this market is facing severe pressures and changes (Tim Dixon & Andrew Marston 2002).

E-commerce comes from the term electronic commerce and consists in a business model where companies or individuals buy and sell goods and services online. This gave the possibility to everyone with an internet connection to be able to buy and sell anything in real time, becoming a competitor or even a substitute for brick-and-mortar stores. Ecommerce has the ability to operate in four market segments, including business-to-business, business-to-consumer, consumer-to-consumer, and consumer-to-business giving this business model a wide range of possible costumers.

The marketing services in this new way of consuming and in traditional brick and mortar stores have crucial contradictions that are worth analysing. On one hand the suggested advantages of e-tailing are that it is cheaper, provides larger selection, reduces processing errors, protects consumer anonymity, providing an overall more convenient experience with quicker transactions (Buford, n.d.). Likewise, some of the perceived disadvantages of e-commerce are delayed gratification, lack of return policies, lower rate of order placement, lack of customer service and security fears related with privacy and fraud. On the other hand, if shoppers do choose brick and mortar stores over online outlets they will have an inherently more tangible experience, since they typically have a building that shoppers can visit and have all the attached sensory cues that come with it. (Rajasree K. Rajamma, Audhesh K. Paswan and Gopala Ganesh 2007). Also, these physical stores are associated with the feeling of assurance and complaint resolution due to the presence of human interaction. This is likely to lead to a certain sense of permanence and a feeling of security in the minds of customers (Crosby and Stephens, 1987; Berry and Gresham, 1986; Westbrook, 1981).

Despite the popularity of web-based retailing and its virtues, doubts have been raised as to whether this type of consumerism makes sense to all products or services (Pandya and Dholakia, 2005; Schwartz, 2002). The study conducted by Paswan and Ganesh (2007) suggests that there are clearly some consumers that select a particular shopping mode based on their perceptions about whether a product or service is best bought from one or the other. Results from this empirical study suggest that services are more likely to be associated with the online shopping mode, whereas more tangible products are usually associated with bricks and mortar stores. In addition, trade statistics suggest that while services such as travel, tourism, financial services and music seem to be flourishing on the internet, the more tangible products such as groceries and clothing have not performed as well (Halpern, 2004; Heung, 2003).

1.2 Shopping centres lifecycle

The cycle of investment, divestment and re-investment of capital as well as the continuous opening of new shopping centers can, frequently, lead to an overlap of catchment areas and, thus, a saturation of the market. This phenomenon can be explained by the theory of creative destruction idealized by Schumpeter describing "… a process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of creative destruction is the essential fact about capitalism" Harvey (2012).

As suggested by Harvey (2012) investments in shopping centers are related to dynamics of capital accumulation[1]. They are seen by developers as having a life span just "sufficient to guarantee the amortization of the initial investment" (Cavoto & Limonta, 2013:69). Still, during the stage when shopping centers achieve the maturity phase, the path to decay is not unavoidable. As corroborated by Anselmsson (2016) and Guimarães (2018), some actions can be implemented in older shopping centers in order to remain economically viable.

2. Adaptation of companies to foreign markets

2.1 Internationalization problems

Launching a company abroad is always a challenge and there is a difficult path to follow in order to have a good adaptation to the foreign market. The existence of considerable sunk costs to start an international operation present the biggest barrier that companies must overcome to

[1] Pursuit of profit, involving the investment of money or any financial asset with the goal of increasing the initial monetary value of said asset

expand their company reach. Therefore, firms need substantial time to accumulate sufficient knowledge before departing on their first investment (Aharoni, 1966).

There are a lot of obstacles that make it riskier to start doing business in a foreign country and the Theories of Foreign Direct Investment indicate that foreign firms face drawbacks when competing with local firms. These difficulties can be explained by 3 main points that affect the possibilities of success of the internationalized company. The factors are:

1. Differences in political economy, business environment, language and laws
2. Discrimination by the whole supply chain, those being clients, customers, suppliers, etc.
3. Exchange rate risks, referring to the risk that a firm incurs by changes in the exchange rates between currencies that would end up affecting their operations and profitability (e.g., Hymer, 1960).

There are different trains of thought on internationalization theory and the debate has been in the way internalization is carried out throughout time.

On one hand, there is the perspective that internalization is incremental, meaning that internationalization develops faster and faster as the company has better knowledge of the market. This theory argues that the process of starting operations in a new country is gradual due to a lack of experimental knowledge (e.g., Bilkey and Tesar, 1977; Johanson and Vahlne, 1977). This is the states that the knowledge that grows out of experience is the most crucial to the learning process and assumes that the access that firms have to that information is imperfect in foreign markets. As expressed by Forsgren and Johanson (1992: 10), “international expansion is inhibited by the lack of knowledge about foreign markets and such knowledge can mainly be acquired gradually through experience from practical operations abroad”.

On the other hand, there is the perspective of Torben Pedersen and J. Myles Shaver (2011) that see internationalization in another way proposing the Big Step Hypothesis, arguing that this is a discontinue process characterized by an initial big step. This step is related to the initial efforts made to develop a solid architecture for managing, controlling and integrating these overseas operations. However, these sunk costs of starting an operation only apply for the first time a firm moves abroad. In fact, if a company expands its international operations to another country, The Big Step Hypotheses argues that it is easier to “plug in” and add more international activities after the first move is done.

Yet, in the last decades many markets became far more internationally integraded communication and transportation is cheaper, faster, and better. Now, for example there are software programs that enable payments that are exchanged electronically across countries with increasing frequency and are unaffected by the usual considerations of internationalization.

2.2 International at launch

Although most firms still appear to internationalize in an incremental way, the speed and complexity of firms internationalization is increasing around the world, and a small but increasing number of firms are international at founding (UNCTAD 1993).

The theories are said to apply best to the early stages of firm internationalization (Johanson/Vahlne 1990, Andersen 1993). Thus, international new ventures (INV) would appear to be the most likely type of firm to begin a path of slow, incremental and risk-averse internationalization, but these certainly do not. The Johanson and Vahlne (1990) theory recognizes that such firms do exist and speculates that they are a consequence of an international network of firms.

As said previously, the improvements in low-cost transportation and digital technologies contributed to an increase in the number of new INV (Ohmae 1990). Dunning (1995) suggests, this change is occurring mainly because large multinational enterprises are divesting from activities that were previously integrated into their managerial hierarchy and are now replacing those relationships with a keiretsu-style[2] alliances with smaller firms.

If the situation is as Dunning (1995) presented, these INV would be mostly dependent companies. However, in other studies, like McDougall/Shane/Oviatt (1994) or Shrader (1996) where a considerable number of INVs have been studied, no evidence was shown for such dependent companies. There was instead a big prevalence of independent businesses.

In order to manage the risk of internationalization there is one more factor that INV use. As Shrader (1996) showed, the level of international risk can be impacted by companies' strategy. High performing INVs managed international risks by balancing the threats to which they were exposed. The revenue from a foreign country was measurably traded off against the risk of the country's political economy, and the mode of entry used. For example, if a INV entered a low-

[2] Keiretsu is a Japanese term referring to a business network made up of different companies that work closely while remaining operational independent.

risk country, with a stable and predictable economy, the venture would use a high-risk entry mode, and vice-versa (Shrader 1996).

3. Architecture industry

3.1 Differentiation in architecture firms

The Architecture market, as many others is a competitive market and firms need to find a way to distinguish themselves from their many competitors. Therefore, architects starting their own firms must provide something more than a regular package of architectural services coordinated with a carefully considered strategy (Heintz & Aranda-Mena 2016). Therefore, differentiation is needed. Differentiation may be defined as the act of designing a set of meaningful differences to distinguish the company's offerings from competitors' (Kotler & Amstrong, 2003) and as Porter (1980) explained, organizations which adopt this type of business level strategy tend to charge higher prices when compared with competitors, due to the unique features offered.

Although, being in a competitive market like many others, the architectural market, especially at the small end, is an uncommon market in the sense that there are comparatively many sellers and comparatively few buyers. Clients enjoy a relatively strong position in that ends up shaping the way it unfolds (Heintz & Aranda-Mena 2016).

The Resource Based view strategy, introduced buy Barney (2001) suggests a helpful way to understand strategy in this competitive environment. This is a managerial framework used to determined how a company can exploit and achieve a sustainable competitive advantage. Following this train of thought, architectural companies have the need to find a unique resource. Signature styles, or the ambition to have one, is one of the most common ways for these companies to offer something truly unique, however these are not relevant for the majority of the clients. Therefore, Heintz and Aranda-Mena (2016) argue that strategy for small firms will be a combination of scarce competences, rather than one truly unique ones.

In this specific market competition happens on a project-by-project basis. Contracts are normally signed for each project and not for a specific time (Heintz & Aranda-Mena 2016). Heintz and Aranda-Mena (2016) suggests that on one hand, for large clients the process of selecting an architecture firm is usually relatively robust and transparent with pre-establish criteria. On the other hand, for smaller clients, the firms will have a more improved selection process. He argues that for these clients the “two most important selection factors will be price and “click” – the feeling that they can work with this particular architect”. The so called “click” is described as a mix of personality, values and interaction style that stand out during the preliminary presentation. Therefore, this study concluded that the most relevant competencies for small architect firms are:

- Values
- Competencies required to realize values
- Portfolio as evidence of realized values

Companies cannot escape from service innovation which is crucial to acquire new businesses and to improve performance (Kaliappen & Hilman 2014; Grawe, Chen & Daugherty, 2009). Many studies like Allen & Helms (2006) and Frohwein & Hansjurgens (2005) have shown that an effective differentiation strategy and service innovation will create competitive advantages and become crucial for service organizations in fulfilling the customers' expectations. Concluding, the power of differentiation is scarcity which will weaken the strength of the buyer and increase the seller's.

3.2 Brand Image and strategy in architecture firms

Design follows brand strategy in most product and service organizations and the core business of architecture firms is design. Therefore, for this type of firms the reverse applies: brand follows design (Smyth & Kioussi 2011). In other words, the role brand management plays in architecture companies is parallel to the role design plays in other businesses – brand supports design quality in the same way design supports brand in non-design firms. According to Winch and Schneider (1993) design quality and management are important in order to develop a brand reputation making imperative that architecture firms explore well this framework.

The truth is that this does not happen that often. According to Smyth & Kioussi (2011) brand and marketing are underdeveloped in architecture firms and the authors go even further by concluding that design firms would benefit from brand development through the explicit relationship between marketing and key account management roles.

3.3 Digitalization of architecture industry

Productivity growth in the architecture industry has stagnated globally in recent decades (Barbosa et al. 2017). The industry has not been able to keep the pace of the overall economic productivity. There is a study (Remes 2018) that finds a positive correlation between the productivity growth of an industry and its degree of digitalization, and as excepted on the Mckinsey digitalization index construction is one of the sectors with the lowest score as shown in Fig. 1.

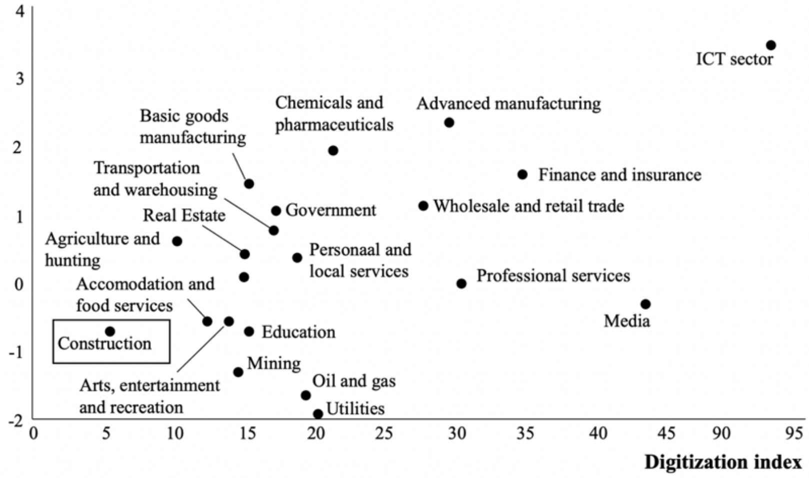


Fig. 1 *Correlation between productivity growth and digitization index across industries in Europe: highlighted in the red box the construction industry (Remes et al. 2018)*

On a more recent study by Talamo & Bonanomi (2020) they describe the architecture industry as being rapidly increasing their productivity, competitiveness and process efficiency. The authors acknowledge thar “researchers and practitioners are already devoting significant efforts to promote the adoption of digital technologies”. Despite all these improvements a larger focus on technology, process and organizations is needed to make the most out of the digitalization process.

Teaching Note

Overview

ADDON+ network was founded in November 2011 in Lisbon, Portugal which specialized in architectural concepts and design supervision of office buildings and shopping centers. The company was created when Frederico and Tiago left their previous employer to create their own firm. They used to be colleagues and were keen on starting their own project. In their previous company they had worked exclusively in the Turkish market. Consequently, they had close contact with most of the clients. Therefore, as they created ADDON+, Turkey became the natural target market for them to focus on.

Within the strategy developed to tackle the market, ADDON+ started by offering a service that was differentiated from their competitors, which consisted in doing the design concept and following through with site supervision i.e. monitoring the construction process.

Initially the company was rather successful and was able to secure big projects for shopping centres all around Turkey. Later on, it was able to diversify into some novel projects like hotels and apartment complexes, for example.

Despite the initial growth, things started to severely change. Revenues dropped and it was getting harder to find new projects. The economy of the country was going down due to political instability, which caused the value of the Turkish lira to depreciate. This depreciation made ADDON+ unable to relay on their premium and specialized services since their clients were not able to pay them. Furthermore, local architecture firms started to charge much lower prices, thus slowly pushing the Portuguese company out of its main market.

This created a strategic problem that needed an urgent solution. Possible alternatives on how to tackle this challenge included leaving the Turkish market and starting operations in Portugal or staying in Turkey hoping for a quick economic recovery.

Learning objectives

This case raises two main issues, one being the importance for managers to be aware of changes in the market and the need to diversify income sources, and the other ways to differentiate in the architecture industry.

The dilemma ADDON+ is faced with can be an interesting subject for strategic management courses. With this Case students can learn about risk management related to market concentration and understand its implications on companies' operations. Teachers can go in depth on how to prevent or how to react to these challenges.

Regarding the second topic, teachers and students might find interesting the way this market is structured because there are several features that might be unique. Addressing the market for architecture firms through this case will also provide an opportunity to understand how to differentiate in the architecture market. Students can get insights on the competitive environment and on the different ways these companies fight for the better projects and clients. Marketing or strategy instructors can find in this Case a way to address relevant topics like business level strategy, resource-based view strategy and brand management in their classes

Assignment Questions

The purpose of these questions is to help students to prepare for the class discussion of the case.

1. How would you characterize the Turkish architecture market when ADDON+ was launched?
2. What is your assessment of ADDON+'s competitive position? What are its key strengths?
3. If you were a partner at ADDON+ what action would you suggest to the team? Explain why.

Class Plan

1. Evaluate the initial strategy for ADDON+?
2. What were the main risks and opportunities of the Turkish market?
3. What are the key success factors of the industry where ADDON+ operates?
4. How did ADDON+ adapt to the competitive characteristics of the market?
5. What were the main reasons for the problems that the company faced in Turkey?
6. What were ADDON+'s main challenges?
7. What alternatives are open for the company?
8. What are your recommendations for the management of the company?

Analysis

1. Evaluate the initial strategy for ADDON+?

ADDON+ entered the Turkish market with a very clear and well-defined strategy of focused differentiation. All the years they had of experience were put to good use and helped the company define a coherent strategy. When they entered the market, they already had a connection with some possible clients with whom they had work previously, therefore marketing was not their main priority.

The company wanted to position itself as a brand that adds value to their clients' projects. They were not in for any kind of jobs, only wanting to take part in the projects where they thought they would make a difference. Besides that, the company wanted to create an environment and a workflow with the client where they would help and accompany the project for the long run (even after its construction) which was not the norm for their competitors at the time.

One of the most prominent ways of analysing a company strategy is to me the business level strategy matrix developed by Michel Porter in 1998. This refers to the combined sets of actions that aim to create a competitive advantage and to offer value to customers. This matrix determines the position of each company in their markets, in relation to their competitors.

When analysing the business level strategy that the Portuguese company was following, it is possible to clearly state that they were following a focus differentiation strategy. On the matrix we can see that the source of competitive advantage is differentiation, and the scope is narrow. This means that ADDON+ is offering a service that is almost unique in the market and applying it to a specific portion of the market (shopping centres).

A focused differentiation strategy enables the company to charge higher prices than some of their competitors. The whole concept is based on offering a service that is almost unmatched in the market and their prices can be higher. This also is enabled due to the competition being limited. By specializing in a niche market, the number of possible competitors drops.

Strategic position is also a key part of every business and needs to be defined in a way that delivers a unique mix of value. Porter (1998) also defined that strategic position emerges from 3 sources: Variety-based, needs-based and access-based. These often overlap and are not mutually exclusive, thus in the beginning, ADDON+ approached the market in two different ways.

When entering the Turkish market ADDON+ had a strategic position that was variety based, meaning they would only provide a subset of the entire architecture industry services. They were willing to focus only on the niche market for shopping centres and benefit from a more focused and specialized approach. This did not take long. Frederico and Tiago soon understand that a more needs-based approach would benefit ADDON+ and organically started to change. This new positioning enabled the company to work more closely with some of their clients, capturing the full potential of each one. As the company started to change their positioning it got some new projects for other things than shopping centres from clients they were already working with. The clients got satisfied because they only had to deal with one company that they already knew for different projects and ADDON+ was able to secure more projects and diversify its portfolio.

This way of seeking a competitive advantage also comes with some risks for companies. By narrowing their scope, their firms are actively limiting demand which could limit growth possibilities. They are also more vulnerable to any changes that might occur in the market. Their niche might disappear or suffer drastic changes, they might get outcompeted by other business that adopted an even narrower focus or even get surpassed by bigger firms with a broader scope in the market.

2. What were the main risks and opportunities of the Turkish market?

When a company decides to enter a new market, it is always a matter of finding a good balance between the opportunities and risks. These should be managed in such a way that enables the company to foresee growth opportunities.

The CAGE distance framework (Ghemawat 2001) is useful to understand the risk that a company faces when moving to a new market. This concept used distances between countries. With this framework companies will understand better what are the risks of staring operations in each country which may lead to a better final decision.

With this framework it will be possible to better comprehend the risks/opportunities of starting operations in Turkey by comparing it with Portugal.

	Cultural distance	*Administrative distance*	*Geographic distance*	*Economic distance*
Turkey	• Different languages • Different ethnicities • Different religions • Lack of connective ethnic or social networks • Different language	• No comun currencey • Somewhat unstable political environment • Different legal system	• 4.000+kms distance • Diferant timezones	• Bigger economic power • More willingness to invest

As it is possible to see in the table above, there are a lot of factors that were considered risks for the move to Turkey. All these are true. However, Frederico and Tiago, the founders of the company, had been working for a long time in this market for their previous company, and obviously, this six-year experience reduced some of these risks to such a point that they became opportunities.

With all the previous years in Turkey, Tiago and Frederico gained a much better understanding of the country's culture, rituals and traditions enabling them to blend with the locals and to understand what was expected from their projects. Concluding, this diluted the risks of the cultural distance and made them a more suitable competitor than other foreign companies operating in the same market.

The key risks for ADDON+ were related to the broader macro-environment. The fact that the currency was different left the Portuguese company venerable to fluctuation on the Turkish economy which, when paired with the unstable political environment, could create big problems. The different legal system mas not a big problem but is always a risk since they needed to rely on foreign lawyer or to find Portuguese ones that had experience in Turkish laws.

The major opportunities in this market were related to the size of the economy and the amount of investments that companies were willing to make. Turkey is a big country, much larger than Portugal, so, this factor alone would contribute to more new project opportunities. The fact that investors were willing to inject money for the new construction projects was also a crucial opportunity.

Overall, this market had both advantages and risks that needed to be monitored in order to make the most out of this move to Turkey.

3. What are the key success factors of the industry where ADDON+ operates?

There are many factors that can push a company to success but for ADDON+ there are some that stand out and networking was one of them. It was a crucial part of the process to acquire new projects and to gain a place in the market.

In the literature review Heintz (2016) proposed that the two main factors for closing a deal with a client are price and "click", the latter being the mix of personality, values, and interaction style. This clearly indicates that the relationship between the people involved in those companies is one of the key factors to find new opportunities in the market.

For example, ADDON+ entered Turkey with a new-born company and immediately founded projects and clients that were willing to work with them. This happened because the founders of ADDON+ already had a well-developed network from their previous company and there was a "click" with these fist clients. These companies already knew how ADDON+ would work and most important they already knew what to expect from the heads of the company, Frederico and Tiago.

Another important success factor was customer service. This feature was actually the foundation for ADDON+'s competitive advantage. In this industry the support you offer to clients, both before and during the construction of the project, is crucial for the good implementation of the architects' ideas. This method of working contrasted with ADDON+'s competitors. These companies, from Italy, Spain and the UK would only send their projects to clients, not following through, even for minor changes.

Finally, I would argue that the way ADDON+ designed was also a success factor. There is no network or even costumer service that would compensate for a bad design. The company had the experience and the knowledge of the market that was needed to know what these Turkish companies wanted to see. They knew how to incorporate a novelty into traditional designs that impressed their clients.

This premium and exotic design plus the robust costumer service allowed ADDON+ to charge higher prices than their local competitors. However, later on, when the crisis knocked on Turkey's door, this advantage could not be sustained anymore. From this it is possible to assume that price is a key success factor in this industry but ADDON+ did not had the advantage.

Concluding, networking, customer service and design not only open doors in the architecture business but also favour the client's willingness to pay more for ADDON+'s services.

4. How did ADDON+ adapt to the competitive characteristics of the market?

One of the most useful ways to analyse a company's competitive environment is the Five Forces Framework of Michael Porter. This guides companies to find the best business strategies to increase competitive advantages and analyse the industry structure. The 5 forces the shape almost every market and industry in the world are:

The first force is the threat of new entrants. This is related to the difficulty of new competitors to enter the market, and this affects the power companies have inside that market. The less time and money it takes to for an outside company to enter a market, the more vulnerable are the companies operating in that market. This volatility is not a positive aspect for any market since more competitors means lower prices. In the case of the market where ADDON+ is inserted, the treat of new entries is relatively low since they are operating in a very differentiated market where an extensive portfolio is much needed to secure new projects.

The second force is the threat of substitutes. This refers to how easily can a substitute service enter the market and pose a threat to incumbents. If a service has no close substitutes, it will have more leverage to increase prices. On the shopping centre design business, the number of substitutes available is moderately hight but there is a high level of perceived service differentiation, which reduces the likelihood of having substitutes in the market. However, we can consider the threat of substitutes to be somewhat high since switching costs are too low.

The third force is the bargaining power of clients. This force represents one of the most noticeable characteristics of the architecture market in Turkey as well as of a lot of other countries. Client bargaining power is described as the ability for clients to put a firm under pressure and this happens when the client has the upper hand in the value chain. For the architecture market this occurs due to the low number of clients to in the market and their significance. The degree of concentration increases specially in the shopping centre niche. In this business the number of clients is limited to just a few big multinational players due to the huge amounts of investment needed to start a project. Small architecture firms became too dependent of these big companies since they represent a big portion of their revenues. Furthermore, multinationals know that their switching costs are minimal since most companies will be available to get in board in those projects due to their high profitability. However, even with low switching costs, customer loyalty tends to be high. In normal conditions, there are strong emotional relationships between small architecture companies and their clients.

The fourth force that Porter described is the suppliers bargaining power, which addresses how easily suppliers can drive up the cost of inputs. This threat is amplified with the number and or size of the suppliers as with the uniqueness of the service provided. However, this force doesn't have a relevant impact in ADDON+'s industry since there are no direct suppliers working with the company.

The fifth and last force that shapes markets is called competitive rivalry. This is a measure of the extent of competition among existing firms in the same market. The number of competitors as well as their diversity combined with industry concentration and barriers to exit are some of the factors that have an impact on competitive rivalry. For ADDON+ in Turkey their competition was mainly composed by foreign companies from the UK, Italy and Spain. The market was not very much interested in working with local companies since they were looking for novelty concepts and Turkish companies were viewed as less innovative as foreign ones.

As we can see ADDON+ was in a not so attractive industry. Despite all the positive aspects, like a low threat of new entrants, the buyer power is just too prevalent. The fact that all the companies in this industry are so dependent on just a few possible clients, leaves them very vulnerable. In this niche market, companies are left at the mercy of big multinationals that despite some customer loyalty may change their view on things from one day to another. Concluding, in really controlled and stable conditions, it is an industry where companies have the ability to make money, nevertheless they are susceptible to lose a lot if the status quo changes.

As described earlier, ADDON+ entered the market with an understanding of how the market worked, however there were some actions that were taken in order to mitigate some of the competitive issues that the company faced in the first years. Therefore, ADDON+ started to broaden their scope and accept projects there were not in their core business. This was a strategic decision that aimed to reduce the bargaining power of clients. Frederico and Tiago recognized that they were too dependent on the same multinationals to get them shopping centre projects to work on and they vulnerability was unsettling to them. Consequently, the company took measures to start building a portfolio in other areas like in hotel and housing complexes in order to diversify their income sources.

5. **What were the main reasons for the problems that the company faced in Turkey?**

Despite a relatively stable entry in the market, ADDON+ started to feel some difficulties in 2015. These were problems that were not directly related to their operations in turkey but ended up affecting and dramatically changing their business.

When ADDON+ started their journey in Turkey, the economy was stable and real estate investments were growing, however, the country never had a completely stable political environment. In 2014 the political situation in Turkey deteriorated even more and that jeopardized all the growth that ADDON+ was enjoying.

Political instability and economic growth are deeply interconnected. Normally, uncertainty related with an unstable political environment reduces investments and consequently the speed of economic development. To worsen the situation, a poor economic performance can also lead to political unrest.

In 2015, there were two parliamentary elections due to disagreements between the main political parties, which caused some violent protests and even terrorists attacks. Adding to this the conflict between the government and Kurdish people had escalated to a war. This rising problems in the country lead to a more authoritarian government that cracked down on freedom of press and freedom of speech to discredit the political opposition and prevent the scrutiny of government policies.

All these factors combined had a widespread impact on the country's development, including the real estate industry. The Turkish currency was dropping in value and ADDON+ started to become too expensive for that market. It was getting to secure new projects and local companies were slowly gaining their position in the market.

ADDON+ had a lot of challenges that came with the distance between their offices and their project locations. The design concept could be done remotely, and they did not need to travel for that. The main reason for their trips abroad was site supervision. This was what gave ADDON+ it's competitive advantage since almost none of their competitors used to do it.

ADDON+, with the knowledge they had about the market, knew that if they didn't closely monitor the project progress on site, it would end up not as the architects idealized. The close supervision made possible that architects talked to engineers, contractors and investors making sure if their ideas were in fact possible to implement or if they had to make changes to an already finished project. ADDON+'s competitors from Italy, UK and Spain usually didn't give this level of customer service and just delivered the product remotely.

The problem with site supervision was that it meant that ADDON+ employees would need to have regular trips to different Turkish cities. These trips had a duration of 4 or 5 days and had a significant cost for the Portuguese company. Frederico and Tiago considered this one of their most defining services and therefore would not avoid these trips for the money or the time spent far from home. Travel related costs made them less competitive in pricing but offered a value proposition that was unmatched in the market.

6. What were ADDON+'s main challenges?

The problems that the company faced brought up some challenges in their strategic path and choice of markets.

The strategic plan when ADDON+ began was to enter the Turkish market with a price point that was above what local companies charged, but offering a service that was much more complete. The company was also benefiting from being foreign which gave a more exotic and glamorous idea of their projects. This business model proved successful in the beginning, but as soon as the Turkish lira started to depreciate the local clients started not to be able to pay for the extras that ADDON+ offered, thus making the company too expensive for that market. Of course, this initiated a struggle to secure new projects which could only be solved with the implementation of a new strategic plan.

ADDON+ choice of markets turned out also to be a big challenge for the company. Their choice was simple, perhaps way to simple, and consisted in exploring to the maximum their connections in Turkey and focus their attentions there. Now we know that it turned out to be a choice that it was too naive and risky since ADDON+ became exposed to the Turkish economy. This was an economy that was growing when the company entered, but already had some underlying pollical problems that might anticipate some instability problems. The fact that the company had almost no operations in any other countries made it difficult to redirect their attentions to other markets immediately, since there was no solid structure of connections or meaningful projects in other places.

7. What alternatives are open for the company?

Since the company noticed that the stability of the Turkish economy was compromised, ADDON+ managers tried to find a solution in order to find new projects and keep the company in business. The atmosphere was tense, but they ended up agreeing in 3 possible solutions.

The first one was moving their operations to their home country, Portugal. The Portuguese market was showing signs of being a great opportunity for ADDON+. The real estate market was growing which really impressed Frederico and Tiago. Their move to Portugal would also mean that the costs associated with operating in another country would disappear, increasing their profitability. Other barriers and risks would also get eliminated like language differences and exchange rate fluctuations. The problem that was concerning managers regarding this decision was that their portfolio in Portugal was extremely scarce as well as their network, therefore the company would be entering the market without the competitive advantage they used to have.

The second option was to try to keep their position in the Turkish market and hope for a quick turnaround. The company was deeply engrained in Turkey and it was difficult for the managers to drop all they had built in the country. Leaving that market would be harsh on the company but the Turkish lira had been declining steadily throughout the last years and they did not saw any sign of it getting better.

For the last option, Frederico and Tiago thought that the company could still operate with Turkish partners while starting to advance in the Portuguese market. This option was viewed as a way to mitigate the impact of completely changing the target market by still keeping some activities in the Turkish market. These operations would not involve that much travel and only for specific parts of each project where the company felt they added the most value while, at the same time keeping the costs low. So, their plan was to only develop the concept design and send it to Turkey. This would not involve traveling which enabled ADDON+ to present reduced prices that would be reasonable for the Turkish market.

8. What are your recommendations for the management of the company?

ADDON+ has a big challenge up ahead and need a well thought strategy to succeed in this new stage. Their main goal is to find a way to keep their business alive and with prospects of growing by maintaining their core business.

The first recommendation to ADDON+'s managers would be to keep broadening their scope and be available for all kind of projects. The company started by only doing shopping centres in Turkey but soon added residential complexes and hotels to their portfolio. My advice would be for them to keep adding more types of projects to their portfolio, including supermarkets, office buildings, etc. This could be achieved by employing people with more experience in these areas or entering the market in small steps by accepting smaller jobs like refurbishments. This would enable ADDON+ to work their way up gradually in the market by assembling a good and solid portfolio and getting bigger projects. This step is crucial so that they do not become too dependent on the same clients. As discussed previously, this market is defined by having an extremely low number of clients which gives them a lot of bargaining power. This leaves ADDON+ in a vulnerable place since the only few big clients set the price and the demand. By diversifying their scope, the company would be working with more clients, making them less dependent on the ones they already work with.

Regarding international moves I think some of the managers options make sense, but I would start by ruling out the possibility of staying just in Turkey hopping for a better tomorrow on the Turkish economy. Turkish has proved that it is not a stable country politically and economically, which will leave ADDON+ in a constant state of uncertainty. Despite all the work done in the Turkish market, in my opinion it is not a viable solution to keep operations mainly in Turkish soil. Frederico and Tiago need to be smart enough to leave that market behind and try to apply their knowledge and experience in other countries.

On a more positive note, I view the move to Portugal as a great alternative to the bad situation in Turkey. In Portugal some of their previous problems would vanish like high travels costs for example. Of course, one could argue that they will have problems developing a network as strong as in Turkey and that is in fact true. However, ADDON+ will be in the best place to restart a new web of connections since there are no language or culture barriers. Adding to these advantages, Portugal was showing signs of growth in the real estate market due to the rising numbers of tourists entering the country. This presented a great opportunity for ADDON+ since the demand for new projects seemed to be increasing.

Managers also had the idea of staying in Turkey while developing operations in Portugal. In my opinion this is a smart move that makes sense on a short-term view since it will make this transition occur smoothly. Having the possibility to have a somewhat stable income from Turkey would be a great way to start things up in Portugal the right way. Without any stable income, ADDON+ can be pressured to accept the wrong projects of even settle for lower prices in Portugal due to the need for liquidity in order to pay staff and expenses.

On a more long-term view, I would advise ADDON+ managers to look for opportunities in other countries, other than Portugal and Turkey. As learned in the case, it is bad for a company to be dependent on the economic stability of one country only. Diversity reduces risks and by working in other countries they will, not only be reducing the risks of economic instability in Portugal, but they will also be working with more clients which therefore will mean a lower bargaining power from buyers. I would advise to look for companies where they already have some contacts where they feel they can do a good job. Due to the similarities with Turkey, I think Northern African countries are a good opportunity to complement their operations in Portugal. Some of these countries are keen on having new real estate investments and they are relatively close to Portugal. Having the possibility to work with different currencies can also have the effect of reducing risk and protect ADDON+ from another problem like the one in Turkey.

Conclusion

ADDON+ Network Is a company that decided to focus almost on one market only and ended up suffering from the lack of diversification. In a market where the pool of possible clients is so small, the bargaining power of buyers has a big impact on the company long term performance. Besides, the thought behind internationalization should be carefully considered. There are a lot of external factors to the company that have an impact on its business, so it is of the upmost importance that every possibility is accounted for in order to predict possible challenges.

Despite all the precautions, challenges will always arise in every company, therefore the crucial thing is to be open to strategic changes and look for new opportunities. This thesis showed just how important it is to have the ability to recognize strategic dilemmas and act on them fast. Basically, a company's ability to restructure itself is what allows it to sustain a competitive position in the market.

Working on this thesis helped me understand how does the architecture industry work in Turkey and in general. I got to understand the challenges and the opportunities in this industry, especially in more differentiated services like those pertaining to the needs of specific clients like shopping centres.

Additionally, it taught me the value of networking and the impact that personal relationships have on the industries where companies work closely with clients. The benefits of having knowledge and experience in differentiated markets and services are also a key takeaway from this thesis.

If I had more time for developing this dissertation, I would have liked to develop concepts related to risk management for service businesses.

After finishing my thesis, I feel curious to see if ADDON+ is able to turn things around in its favour or not and understand how effective was the alternative that they choose.

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