Portuguese Unicorns: Where else to go but the U.S.

A tale of two unicorns

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Abstract

Title: Portuguese Unicorns: Where else to go but the U.S. – A tale of two unicorns
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In the global world of today, companies are expanding internationally left and right. Portuguese start-ups, specifically unicorns who are valued at over one billion dollars, are no exception. This case study focuses on two unicorns with Portuguese DNA, OutSystems and Remote, and aims to assess their internationalization process and the challenges they faced when expanding to the U.S.

As a case study, this dissertation follows a pedagogical format to present students with a real-life example of the processes and challenges these companies faced when internationalizing to the U.S. It addresses pertinent frameworks and concepts on internationalization strategies, entry modes, and competitive advantages.

Students are able to apply these frameworks and concepts learned in class to analyze and discuss the two companies' expansion processes and understand why the U.S. is an attractive market for start-up technology companies.

To examine the internationalization of both companies, primary and secondary data were utilized. Interviews with knowledgeable contacts at the companies and an industry expert were documented as well as secondary data from a report, books, and online sources.

The findings identified for unicorns to expand to the U.S. included direct access to the U.S. consumer base, investors, tax reasons, the competitive landscape, and the perceived prestige of being a U.S. company.

Keywords: Internationalization strategies; start-ups; unicorns; market expansion; competitive advantage

Resumo

Título: Unicórnios Portugueses: Para onde mais ir senão para os E.U.A. - Um conto de dois unicórnios

Autor: Juliana Nicole Aguiar

No mundo global de hoje, as empresas estão em expansão internacional à esquerda e à direita. As novas empresas portuguesas, especificamente unicórnios que estão avaliadas em mais de mil milhões de dólares, não são exceção. Este estudo de caso centra-se em dois unicórnios com ADN português, OutSystems e Remote, e visa avaliar o seu processo de internacionalização e os desafios que enfrentaram quando se expandiram para os EUA.

Como estudo de caso, esta dissertação segue um formato pedagógico para apresentar aos estudantes um exemplo da vida real dos processos e desafios que estas empresas enfrentaram quando se internacionalizaram para os E.U.A. Aborda quadros e conceitos pertinentes sobre estratégias de internacionalização, modos de entrada e vantagens competitivas.

Os estudantes são capazes de aplicar estas estruturas e conceitos aprendidos na aula para analisar e discutir os processos de expansão das duas empresas e compreender porque é que os EUA são um mercado atrativo para empresas tecnológicas em fase de arranque.

Para examinar a internacionalização de ambas as empresas, foram utilizados dados primários e secundários. Foram documentadas entrevistas com contactos de conhecimento nas empresas e com um perito da indústria, bem como dados secundários de um relatório, livros, e fontes em linha.

As conclusões identificadas para a expansão dos unicórnios aos EUA incluíram o acesso direto à base de consumidores dos EUA, investidores, razões fiscais, o panorama competitivo, e o prestígio percebido de ser uma empresa dos EUA.

Palavras-chave: Estratégias de internacionalização; start-ups; unicórnios; expansão do mercado; vantagem competitiva

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Lastly, I would like to thank my family and friends, new and old, who have supported me these past two years. It has been a great adventure in Lisbon and I look forward to what is to come.

List of Abbreviations

GDP	Gross Domestic Product
U.S.	United States
ERP	Enterprise Resource Planning
LCAP	Low-Code Application Platforms
AICEP	Agency for Investments and Foreign Trade in Portugal
AI	Artificial Intelligence
KKR	Kohlberg Kravis Roberts
AIP	Portuguese Investment Agency
ICEP	Institute of Foreign Trade of Portugal
EOR	Employer of Record
Async	Asynchronous
BGFs	Born Global Firms
EJVs	Equity Joint Ventures
FDI	Foreign Direct Investment
INVs	International New Ventures
EIFs	Early Internationalizing Firms

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I. Introduction

To date, a unicorn has many definitions. The one this dissertation will focus on is the third definition from Merriam-Webster (n.d.), *"business: a start-up that is valued at one billion dollars or more."* Many European countries are producing unicorns, but the smaller countries, in terms of economic and financial power like Portugal, are often overlooked compared to the United Kingdom or Germany, for instance (Garcia, 2019).

Although Portugal has only about 10 million inhabitants (O'Neill, 2021b) and a gross domestic product (GDP) of around $230 billion (O'Neill, 2021c) compared with the United Kingdom's 67 million population (Plecher, 2021) and $2,700 billion GDP (O'Neill, 2021d) or Germany's 83 million people (O'Neill, 2021a) and $3,800 billion GDP (O'Neill, 2022), Portugal has seven unicorns to date. Further, six of them have expanded and moved their headquarters to the United States (U.S.): OutSystems, Talkdesk, Feedzai, Remote, Sword Health and Anchorage Digital (Essential Business, 2021).

This dissertation will focus on the phenomenon of Portuguese unicorns internationalizing to the U.S., what their expansion processes looked like, and what their incentives to expand were.

II. Case Study

This is a pedagogical case study on Portuguese unicorns that expanded to the United States. The purpose of this dissertation is to offer students the opportunity to learn from this case by applying concepts and frameworks discussed in the research and teaching notes.

For the case study research, two out of the six unicorns with Portuguese DNA who went to the U.S. were interviewed: OutSystems and Remote. This was due to the availability of the contacts at the companies and one interview was conducted with each company contact. The Vice President of Global Support, Miguel Baltazar, at OutSystems was interviewed and at Remote, the Vice President of Operations, Filipa Matos.

An industry expert, Pedro Ferreira, who is the Senior Commercial Advisor for the Commerce Department at the American Embassy in Lisbon, was also interviewed to understand what agencies and organizations foster the ties between the U.S. and Portugal and the role they play in companies' internationalization process to the U.S. Table 1 depicts the data sources utilized to build the case study.

Data Source	Number	Description
Interviews	3	Employees and industry expert
Articles/Documents	12	Press releases, report, book, handbook, and media interviews

Table 1: Data Sources Overview

OutSystems and Remote operate in the technology industry, but more specifically, the enterprise software sector. Enterprise software can be defined as the software needed for organizations, small and large, to conduct their business activities (*Enterprise Software*, 2022). Enterprise software encompasses many services like enterprise resource planning (ERP), Low-Code Application Platforms (LCAP), and project management (*Enterprise Software Development*, n.d.; Unni, 2021). ERP software is used to control and merge key business functions like integrating human resources, finance, and sales for a company (The Investopedia Team, 2021). LCAPs use low code to efficiently create and deploy applications for user interfaces, workflow, and data services (Wong et al., 2021).

For background context on the relationship between Portugal and the U.S., from the *Barometer of U.S. Companies in Portugal* report (2020), Portugal and the U.S. have a well-established bilateral relationship in many fields like security, defense, science, technology, and the environment. The U.S. is also the fifth-largest market for Portuguese exports and the leading non-EU trading partner for Portugal (*Barometer of U.S. Companies in Portugal*, 2020).

From speaking with Pedro Ferreira from the American Embassy in Lisbon, he said there are also many agencies and organizations who continue to foster the ties between the two countries like the American Chamber of Commerce in Portugal, the American Embassy in Lisbon, the Agency for Investments and Foreign Trade in Portugal (AICEP), and the Portuguese Embassy and Consulates in the United States (P. Ferreira, personal communication, March 21, 2022). These agencies and their role in helping Portuguese companies expand to the U.S. will be touched on more within the case study.

The case study structure is as follows: first, OutSystems' solution, history, and specific topics revolving around internationalization are presented followed by Remote's in the same order. Second, in the research note, frameworks and concepts are introduced and lastly, is the teaching note for pedagogical purposes.

1. OutSystems

1.1 About

OutSystems is an enterprise software company that was founded in 2001 to empower companies to innovate through low-code software. With active customers in over 87 countries, their low-code, artificial intelligence (AI) development platform, depicted in Figure 1, assists businesses to efficiently create and deploy applications for new employee onboarding, auto insurance or mobile banking, among others. Instead of building apps in months or years, OutSystems can create them in days or weeks. (*About OutSystems*, n.d.).

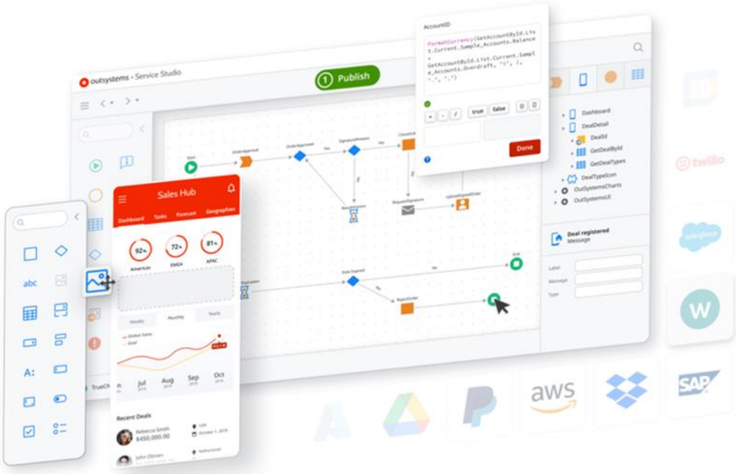

Figure 1: OutSystems' Platform (About OutSystems., n.d.)

1.2 History

"It's hard in the software industry, to be recognized as a global company and not have significant presence in the US or a US investor," said Miguel Baltazar, Vice President of Global Support at OutSystems (M. Baltazar, personal communication, April 8, 2022). Since its inception, Baltazar said that OutSystems was already an international company which was what its founders, Paulo Rosado and Rui Pereira, wanted.

Flashback to 2001 in a garage in Linda-a-Velha, Portugal, OutSystems was born (*About OutSystems*, n.d.). Rosado, who is a native from Évora, Portugal, (Machado, 2018) created OutSystems to assist consumers with quicker innovations and to profoundly alter the development of enterprise software (*About OutSystems*, n.d.).

Although OutSystems was not Rosado's first start-up, when he created OutSystems in 2001, he knew it needed to be an international company from the start. He purposely made the website in English as well as all the internal communication. At first, this made it challenging to sell to their Portuguese customers, but Rosado knew this was necessary to grow OutSystems outside of Portugal.

OutSystems' initial plan was to expand throughout the European Union in the telecommunications sector since telecommunication operators were their largest customers. Due to the combination of the 9/11 terrorist attack, the recession in the U.S., and the dotcom bubble burst though, the telecommunications sector collapsed and OutSystems began running low on money. Figure 2 shows the dotcom bubble burst.

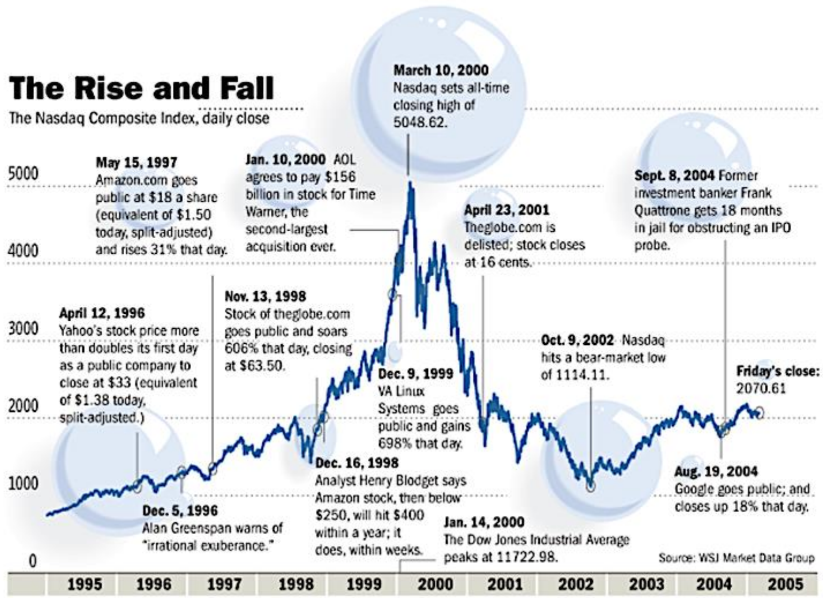

Figure 2: The History of the Dotcom Bubble Burst (Price, 2011)

OutSystems was close to bankruptcy at the end of 2002 and realized they needed to do their first pivot to survive: enter the enterprise market. Little by little, OutSystems increased their sales, shifted their business model from licenses to subscription options and personalized quotes, and once they realized their solutions could be generalized, begun selling their solutions in other sectors like healthcare, manufacturing, and education (*Low-Code Solutions by Industry*, n.d.; Pimentel, 2021). This new survival strategy was key to OutSystems' transversality where, going forward, they were able to provide their customers with more and more solution options (Pimentel, 2021). Their buildable solution options expanded into mobile banking, office management systems, and customer self-service portals, to name a few (*Solutions*, n.d.).

Come 2005, OutSystems had received a Series B financing and was already venturing into other international markets like Spain and Holland (*OutSystems Financials*, n.d.; Pimentel, 2021). Finally, they were ready to start looking for ways to enter the U.S. market. Although OutSystems had OutSystems Inc. which was a Delaware Incorporated, they did not have any American customers nor investors yet. This made it particularly challenging to break into the market because OutSystems needed the security of an American customer and more money to allow them to properly enter the U.S market.

What Rosado decided to do at this point was return to his alma mater, Stanford University in California, where he completed a master's degree back in 1994 to pursue a postgraduate executive program. It was during this program that Rosado met OutSystems' first American customer, the CIO of Tercica, a biotechnology company. At this point, in 2006, Rosado told Baltazar to fly to California and start tending to projects for Tercica.

After securing their first American customer, the necessity to hire some salespeople became apparent. Baltazar recalled how challenging it was to navigate the visas, insurance, and taxes for hiring employees. He found that it was especially challenging to recruit local salespeople due to OutSystems being an unknown company from Portugal. While in the hiring process, Baltazar was surprised to find that many Americans he spoke to did not even know Portugal was a European country. Many of them remarked that they thought Portugal was a part of Spain or from somewhere in South America. Further, those that were more familiar with Portugal were perplexed that good technology could come from a country they thought of as only having knowledge of agriculture.

Although it was OutSystems desire to fully operate in the U.S., the great thing about OutSystems starting up in Portugal was the wealth of good technical people there. Baltazar was fortunate that it was much easier to hire skilled technical workers in Portugal compared to the Silicon Valley, especially in terms of salary and the high spending needed on research and development for software solutions.

Come 2007, OutSystems finally hired their first salesperson, Steve Shaw, who became their Senior Account Manager and helped close a couple of deals with smaller corporations in the Bay Area among other places. Since Shaw lived in San Ramon, California, OutSystems decided to set up their headquarters there. Hiring Shaw aided OutSystems to begin expanding in the U.S. more rapidly. The following year though, it became more difficult to expand organically and OutSystems recognized that there was no awareness in the market for their solution. To combat this, they hired their first American Vice President of Global Marketing, Mike Jones.

"Mike came in and completely redid messaging, materials, branding…all of that was completely redone to the American way of looking at things," Baltazar stated in gratitude. With this good executive sponsorship, the market became aware of OutSystems and the customers began trickling in. By 2009, OutSystems started closing larger deals. Their first large customer

was Safeway, the retail business who focuses on food and drugs in North America (*Safeway*, n.d.) and who is still an OutSystems customer today.

Next, around 2010, OutSystems was gaining traction and found the need for human resources and finance. Toward 2011, OutSystems had around 50 customers and felt they needed to start a proper U.S. corporation than just the sales and delivery they had been doing. OutSystems had their salespeople located in California who spoke directly to customers while their delivery people, more on the technical side, were based out of Portugal. As OutSystems grew, the eight-hour time difference between the two geographies, made it increasingly difficult to manage the whole operations from California.

With this strain in mind in 2011, OutSystems began to feel the pull of the East Coast. They signed a deal with the U.S. Army, located in Washington D.C., and began having customers located in places like Florida and New York. With these changes happening, it was hard to justify keeping the headquarters in San Ramon, California. Around the same time, OutSystems hired Jeff Newlin to be the Vice President & General Manager of the Americas and decided to move their headquarters to where he lived in Atlanta, Georgia. With Newlin on board, OutSystems' U.S. operations finally became independent and Newlin could make real time decisions with sales or market lead generations.

In 2014, with OutSystems doing well, Baltazar decided it was time for him to return to Portugal. A few years after, Carlos Alves, who had been with OutSystems since its inception and working his way up the ranks, moved to Boston, Massachusetts with the new title of Chief Customer Officer. This sparked OutSystems to move their headquarters for a third time to Boston due to Alves's presence and the direct flights to Lisbon.

In 2016 in Boston, OutSystems received large rounds of investments from its first American investor, North Bridge Venture Partners & Growth Equity and in 2018, from Goldman Sachs and Kohlberg Kravis Roberts (KKR). *"Most of the company is in the hands of American investors now,"* remarked Baltazar. *"For intents and purposes, we are a U.S. backed company."*

Since 2001, OutSystems has grown out of that garage into a Portuguese DNA'd unicorn with offices in 13 countries and over 1500 employees worldwide.

1.3 Challenges

"We were 12 years ahead of our time," Rosado revealed to Ana Pimental in her book, *Unicornios Portugueses* (p. 175). Rosado went on to say that OutSystems' solution was so disruptive that they had to change the way companies thought which was very challenging and

took a lot of time, 12 years in fact, to see a massive shift in how companies operated. A silver lining in this was that if OutSystems began as a U.S. company, Rosado does not think they could have waited for the market for 12 years. *"It's only possible in Europe for a company to be waiting for the market for 12 years. In the United States, a company with more than 3, 5 years basically has to close down and create another one,"* he told Pimental (p. 176).

Other challenges OutSystems faced was getting financing and pivoting their strategy. After 9/11, the U.S. recession, and the dotcom bubble burst, around two-thirds of companies needed to adjust their strategies (Pimental, 2021). This was due to the telecommunications market crash which led OutSystems to change strategies and enter the general enterprise market. From there, they switched from selling licenses to subscriptions and generalized their solutions so they could be sold in other industries as well (Pimental, 2021).

Since software products require a lot of financial capital and expertise, Rosado felt like they had the time, the 12 years, to fine tune their solutions and cultivate them for the market. From these struggles, Rosado believed OutSystems emerged with a competitive advantage that was difficult to overcome: *"a market giant in front of us and a product impossible to beat"* (Pimental, 2021, p. 181).

From Baltazar's perspective, the two biggest limitations for OutSystems' expansion to the U.S. was that sales and marketing needed to be done the *"American Way."* He said they were *"effectively the most efficient sales and marketing machines in existence in the world"* and were imperative to break into the U.S. market. OutSystems had great technical people back in Portugal, but really needed a sales force on the ground in the U.S. Baltazar felt this had to do with the need to understand the local culture and social norms better. He said that the U.S. has a distinct culture compared to Europe and especially amongst the 50 states which some people tend to overlook.

"Just because people use the same money and speak roughly the same language, the difference in doing business in New York is different from Chicago, is different from Boston, is different from San Francisco," explained Baltazar. He really felt like OutSystems needed local American salespeople to be able to know where Montana is or to use a baseball analogy with a client. Once OutSystems had an American team in place, Baltazar believed it significantly improved the perception of how good their support was from the perspective of American customers even if the American agents actually knew less on the technical side than the Portuguese agents. *"To sell software, you don't want to stand out by not knowing the correct American customs to say and do,"* he detailed.

1.4 Headquarters Location

The location for OutSystems' headquarters was based primarily on where their employees were located. For the hiring of their first salesperson, Steve Shaw, Baltazar said that establishing the headquarters where Shaw lived in San Ramon, California was part of the package of hiring a good salesperson to a small, unknown Portuguese company.

Then around 2011, OutSystems hired Jeff Newlin as the Vice President & General Manager of the Americas and Newlin lived in Atlanta, Georgia so OutSystems made their second move there. Baltazar also mentioned they were receiving more customers on the East Coast and the five-hour time difference from Georgia to Portugal, rather than eight-hours from California, took some pressure off OutSystems and improved their company communication.

Lastly, around 2014 is when OutSystems moved their headquarters for a third and final time to Boston, Massachusetts. This was due to Newlin leaving the company and Carlos Alves, who was promoted to Chief Customer Officer, moving there. Boston seemed like the ideal U.S. location from Baltazar's perspective especially considering the direct flights to Lisbon.

1.5 Role of Agencies

Regarding the role Portuguese and American agencies played in OutSystems expansion process to the U.S., Baltazar detailed that AICEP and the Consulate General of Portugal in San Francisco assisted them the most. AICEP, which was created in 2007 from the merger of the Portuguese Investment Agency (AIP) and the Institute of Foreign Trade of Portugal (ICEP) helps small and medium companies to launch their businesses abroad (*Sobre Nós*, n.d.). For OutSystems, AICEP's program, INOV Contacto, helped most by sponsoring many of their technical staff from Portugal that they brought over to the U.S. when they first expanded there. Baltazar recalled that OutSystems was grateful for this initiative since back then, money was short so any labor they could get which they did not have to pay for was beneficial.

Baltazar also mentioned that AICEP did not assist them in setting up offices in the U.S., but OutSystems also never asked for it nor needed it. What OutSystems needed and appreciated the most was the networking aspect and the sponsorship of technical staff rather than operational assistance. Baltazar said if they would have asked for help to set up offices, he believes AICEP would have provided that service.

Another organization that helped OutSystems at the beginning was the Consulate General of Portugal in San Francisco. The consulate helps with a variety of matters like visa or citizenship inquiries and also aids in strengthening the bond between Portugal and the U.S (*Consular Services*, n.d.). What the consul at the time, Nuno Matias, did for OutSystems was help connect them to the community. Baltazar recalled that Matias generated a significant number of leads with locals for OutSystems and would also organize panels for the Portuguese unicorns who were in California at the time. Overall, Baltazar said these organizations were a great help for OutSystems to receive their first deals and secure their first customers and footing on the ground in the U.S.

1.6 Markets

At the beginning, OutSystems was in Portugal and their first customer was in Holland, but since the unicorn's inception, the U.S. was their target market. António Martins da Costa, an executive board member of EDP, Portugal's energy company, and the first chairman and CEO of EDP Renewables in the U.S., said in an interview published on the American Chamber of Commerce in Portugal's website, that OutSystems' *"CEO, Paulo Rosado, prefers to be in the U.S. because it is where the capital flows and clients are"* (Graeme, n.d.). This aligns with what Baltazar said and demonstrates that although OutSystems has active customers in 87 countries, the U.S. market remains their top priority (*About OutSystems*, n.d.).

1.7 Employees

For OutSystems, Baltazar said the majority of their employees were still in Portugal since most of their research and development and support is done in there. They were also fortunate enough to find good technical people in Portugal which Baltazar considers a big plus concerning the challenge of hiring similar people in the U.S in terms of salary. The U.S. is second, behind Portugal, for having the most OutSystems employees which begun in 2006 with Baltazar setting up their operations there. Many of their U.S. employees are on the sales side, but Baltazar mentioned they have now grown from a handful of employees to hundreds on the ground in the U.S.

Figure 3: World Map of OutSystems' Offices and User Groups (About OutSystems, n.d.)

1.8 Competition

Regarding competition, Baltazar felt that the U.S. market was highly competitive when it came to selling OutSystems' solutions in terms of the number of competitors in the market and economies of scale needed to compete, but he was confident that if OutSystems could thrive in the U.S., they could prosper in any other market. From the OutSystems' website, they highlighted the *Gartner Magic Quadrant for Low-Code Application Platforms 2021 Report* which distinguishes OutSystems as a Leader in the Low-Code Application Platforms (LCAP) category as can be seen in Figure 4 *(Comparing OutSystems and ServiceNow*, n.d.). An LCAP can be characterized in the enterprise software sector and is used to quickly make and execute applications that include low-code capabilities to create user interfaces, workflow, and data services (Wong et al., 2021).

Figure 4: Gartner Magic Quadrant for Enterprise Low-code Application Platforms (Gartner, 2021)

In the Gartner Magic Quadrant, there are 12 companies who operate as LCAPs and who were evaluated based on a plethora of criteria like growth and international presence, for example. The x-axis is labeled *completeness of vision* which increases from left to right and the y-axis has *ability to execute* that increases from bottom to top. The bottom left quadrant is labeled *Niche Players*, the bottom right quadrant is *Visionaries* while the top left quadrant is *Challengers* and the top right quadrant is labeled *Leaders*.

From Gartner's Magic Quadrant, OutSystems is distinguished as a Leader. From the Leader's quadrant, the companies who more closely compete with OutSystems are: Salesforce, ServiceNow, Microsoft, and Medix. The Leaders show robust business performance implementation and a strong vision for product and go-to-market strategies. They all serve diverse organizations and are competitive in the international market (Wong et al., 2021).

As per OutSystems' Leader status in the Magic Quadrant, *"its market differentiation is based on its capability to enhance developer productivity for building modern enterprise applications"* (Wong et al., 2021). OutSystems also creates faster application development by providing strong security, multi experience and AI-augmented advancements (Wong et al., 2021). The precautions that the Gartner Magic Quadrant by Wong et al. (2021) detailed for OutSystems was its complex pricing and that OutSystems does not have a vertical nor industry focus which may sway potential customers to consider one of OutSystems' competitors instead.

1.9 Location Differences

Regarding operating with a time difference on different geographies, Baltazar confided that it was challenging at times and was one of the reasons that led to their headquarters moving to the U.S. East Coast rather than staying on the West Coast. When he was still in California, he recalled that on his commutes home from a customer, he would record his findings about the customer and tasks the team needed to do so that when his Portuguese colleagues would wake up, they would hear his recording and already start working before Baltazar woke up the next morning. Baltazar recollected, *"I would wake up every day at 6:00 AM, which was 2:00 PM here in Portugal, and hop out of bed (to join the meeting)."*

He said it was challenging with the eight-hour time difference, but their Portuguese colleagues were willing to work late so they managed to make it work for the years they were based in San Ramon. Once they moved their headquarters to Atlanta though, Baltazar said it was much easier to manage the whole operations there due to the shorter time difference. In Atlanta is also where the U.S. operations of OutSystems became independent.

1.10 Future Strategy

Looking toward the future, Baltazar said growth in the U.S. is the main focus for OutSystems. *"If OutSystems grows in the U.S., it will be easier to grow in other places,"* he mentioned. OutSystems will also be rethinking their products and adapting their projects and services to continue aligning with the U.S. market. *"We need to make sure we have a product that is competitive, that is sellable, has a valid prompt, and that we are able to position to U.S. companies which will, in turn, allow us to then sell specifically all over the world,"* Baltazar concluded.

2. Remote

2.1 About

Remote was founded in 2019 to streamline how companies hire talent worldwide (*About Remote*, n.d.). By owning and operating a full-stack infrastructure in more than 60 countries, Remote assists businesses to remotely employ, pay, and manage their employees and contractors from wherever they are located on the globe (*About Remote*, n.d.; Campos, 2021). These services are all available on the Remote platform as can be viewed in Figure 5.

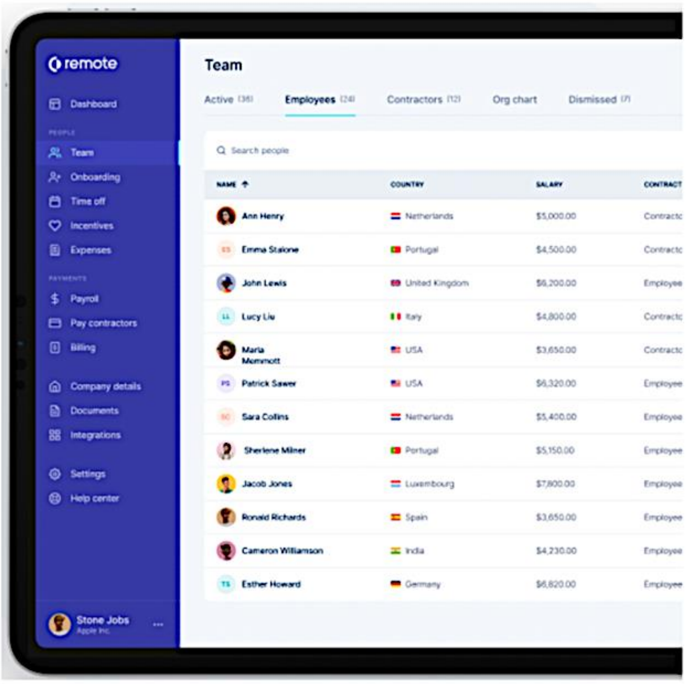

Figure 5: Remote's Platform (Expanding globally, n.d.)

2.2 History

"Founded in early 2019 and publicly launched in 2020, one might think that founders Job van der Voort and Marcelo Lebre had a crystal ball on hand and knew what was coming" (Taylor, 2022).

Job van der Voort, from the Netherlands, left his previous job at GitLab in 2019 to found Remote (Lunden, 2021). From the interview with van der Voort by Kruze Consulting's Scott Orn on his *Founders & Friends Startup* Podcast, van der Voort detailed that he started with GitLab at their founding when they were only five employees and he left when there were over 500. Van der Voort enjoyed how GitLab was open to hiring people from diverse countries but saw firsthand how challenging it could be (Orn, 2021). To hire someone from another country, van der Voort told Orn (2021) that GitLab had to be locally compliant in the country the person lived in, had to know how to provide them benefits, and figure out how to pay them which turned out to be a huge undertaking. From this experience, van der Voort left GitLab and invited his best friend, Marcelo Lebre, from Portugal, to cofound Remote with him as the CTO (Orn, 2021).

Van der Voort and Lebre created the Remote platform to offer tools and expertise for companies to hire worldwide and compensate their employees in the currencies they preferred while remaining compliant with the rules and regulations in those countries (Hammer & Seal, 2022). *"By fully owning and operating legal entities in each country, including staff on the ground in every market, Remote makes it possible for customers to offer competitive, culturally aware employment packages including payroll, benefits, taxes, stock options and regulatory compliance to stand out in the global talent marketplace"* (Hammer & Seal, 2022).

When Filipa Matos joined Remote at its inception, she had no idea about the journey she was in for. Matos, who is from Portugal and is now Vice President of Operations at Remote, joined via invitation from Lebre (F. Matos, personal communication, May 3, 2022). She worked with him previously at Unbabel and accepted his invitation when Remote was only eight people.

Back in 2019, the platform was not available to the public yet, so her purpose was focused primarily on hiring people and to start structuring the organization. Matos felt that these duties fit her capabilities due to her experience in operations, from her previous roles at scaleups, and from her legal background. From there, she was given the responsibility of starting the international expansion process of Remote.

Matos recalled how challenging it was to discover on her own how to set up entities from her desk. She knew that van der Voort's and Lebre's one purpose for Remote though, was to be in the Employer of Record (EOR) business, but not in the traditional way by using third parties. Instead, Remote was being crafted to establish entities in all countries across the globe. This way, *"everything would be on our own to manage so we could control the customer experience from A to Z and guarantee excellence by the end of the day,"* said Matos proudly.

From the Remote website (n.d.), an EOR is a worldwide provider of employment services like payroll, benefits, and taxes which assists companies to legally hire people from other countries. Utilizing an EOR helps a company to expand their operations into other countries without having to set up local entities there. The main reason some companies opt to use an EOR is because setting up local entities can be time-consuming and expensive, especially if they are looking to hire people from many different countries (*Employer of Record Services*, n.d.). For Remote, their EOR pricing services range and they also offer personalized quotes for remote enterprises and global payroll (*Pricing & Plans*, n.d.).

For Remote's first entity, they acquired remote.com at the beginning of 2019 which was a San Francisco, CA based corporation. Matos said that remote.com existed since 2015 and was designed as a job dashboard. When van der Voort and Lebre acquired the domain, they upgraded remote.com to focus on the platform for EOR services and contractor payments and discontinued the job dashboard part since, as of now, Remote is in the business-to-business service in the ERP segment and not business-to-consumer.

Although Matos mentioned it was helpful to have acquired remote.com in the United States, she confided that it was still very challenging for Remote to expand to the U.S. Matos said, *"I must confess that surprisingly, the United States was one of the most difficult ones because, when you look at the United States from a business perspective and want to set up your business there, because we are a regulated type of business we had to understand the differences between all states to be able to set up our business in a different way depending on each state."* This differs greatly from most European countries, for instance, where you only need to understand how the country as a whole does business and not separate states.

To date, Matos stated Remote has expanded to 62 countries and is on the hunt to expand to 100 by the end of 2022. They started in 2019 with only eight people and now have more than 1000 located in over 40 countries.

2.3 Challenges

For Remote, Matos believed that the main challenge for expanding to the U.S. was understanding the differences between states. *"Even though we're talking about the same business model,"* Matos said, *"it's called different things depending on the states and then, in some states you need to apply for a business license while in other states that's not required so all of these nuances took us a lot of time to expand to all the U.S. states."* Overall, Matos said it took them about a year and two months to set up their business in all 50 states.

From the interview with van der Voort by Scott Orn from Kruze Consulting (2021), van der Voort divulged that the greatest concern he saw when expanding Remote's operations was the need to be locally compliant which included running local payroll, understanding local labor laws, and being competent to file local taxes as well. This goes hand in hand with Matos's perspective that Remote needed to understand every country, or states, way of doing business to properly set up their entities.

2.4 Headquarters Location

From the Remote public Handbook, technically, Remote claims it does not have a headquarters. This is because their employees live all over the globe and they operate entities in over 60 countries. To be technical about it though, Remote's topco, the entity that is over the entire corporation, is based in San Francisco, but it is not an office, nor do any Remote employees work from there (*Remote Handbook*, n.d.).

Remote decided to have its topco in San Francisco, specifically, for a few reasons. First, because the job dashboard, remote.com, already existed there and they were able to acquire them. Second, for tax reasons and third, from an investment standpoint.

Since remote.com already existed as a domain in San Francisco, Remote obtained them in early 2019, but Matos said that they would have set up their topco in San Francisco regardless due to the second and third reasons. For tax purposes, Matos mentioned that it is much easier to set up an entity in the U.S. rather than Portugal or any other European country due to less bureaucracy. Since Remote has entities in over 60 countries, Matos said from experience that in the U.S. it was quite easy for them to open a bank account and further set up their business than in the other countries they have entities in. Although they had the acquired remote.com entity already in place, Remote actually created another one, the topco, as a layer of protection for the entire corporate structure which took less than two weeks to set up. Matos compared this timeframe to when they set up their entity in Germany which, in comparison, took about 16 months.

From an investment point of view, Matos also commented that it is attractive to have your company based in the U.S. because then you have access to certain venture capital firms who only invest in U.S. based start-ups. This seems to have paid off for the unicorn who is now valued at almost $3 billion after only three years of life (Hammer & Seal, 2022).

2.5 Role of Agencies

For Remote, Matos said they did not require any assistance from the U.S. or Portuguese agencies when expanding their operations. She said first that they did not need the help and second, when she joined in November 2019, the pandemic was right around the corner and diverted their plans anyway so after only a few months, they had to reinvent their expansion strategies. It made the team think that they might have to stop their expansion process all together since the number of countries they expand to is directly linked to their growth.

Looking back now, Matos believes that a silver lining that came out of the work-from-home pandemic mentality is the unique opportunity companies received to ponder the digitalization of their processes and because of that, Remote's expansion became easier which is why they had no need to contact any embassies or economic development agencies in their expansion. What Matos did mention and gave credit to on their successful expansions was the legal partners they had: *"I think what was really important for us back then was to have really amazing legal partners that helped us to discover everything in every single country."* She mentioned that the partners they worked with were local councils in every country and aided them to be up to date on the requirements to set up their entities.

2.6 Markets

Although Matos does not believe Remote has a home market, she said Remote has two main regions it serves: North America and Europe. The North American region encompasses Canada and the U.S. while most of Remote's European customers are in Germany, the United Kingdom, and a few in Spain. Overall though, Matos detailed that Remote's largest number of customers were in the U.S.

This is mainly because Remote's customers are mostly software-type companies like GitLab, Doordash, Loom and Paystack who are also located in the U.S. and can benefit from utilizing Remote's platform to hire the best talent worldwide (Hammer & Seal, 2022). *"Even when our customers are trying to hire people in different regions of the globe, like for instance Africa or APAC, they are always looking for not specifically native, but people that are able to communicate and speak in English,"* said Matos. Therefore, Remote's customers tend to be from English speaking countries or countries with an affinity for English because most of them operate in English and the codes for software companies are, likewise, in English.

2.7 Employees

On the other hand, when it comes to employees, Matos said their employees are dispersed throughout the world as can be viewed in Figure 6. This has to do with the nature of Remote being a fully remote company. "*Working remotely means that you're free to work from anywhere you want and at any time, so I think a few months ago, potentially three months ago, that's when the majority of the group started to really benefit from all the freedom that comes with the remote working style including myself."* As life is slowly returning to normal, Matos reflected on how nice it is to not be tied down to a specific place due to a job and the advantages that come with remote work.

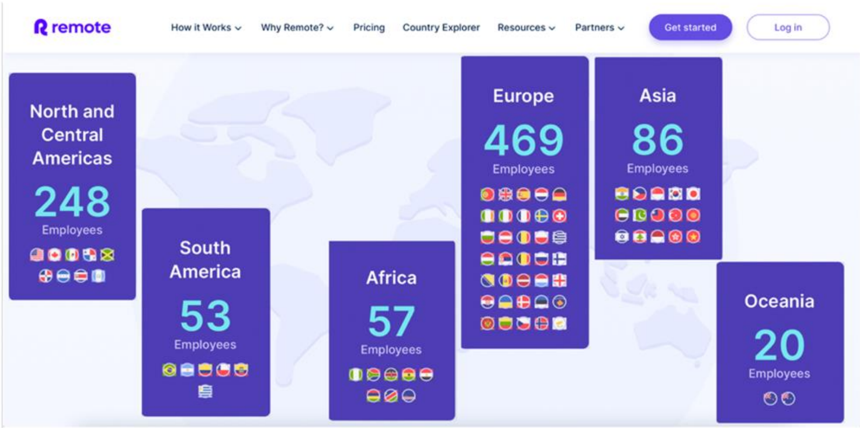

Figure 6: Remote's Worldwide Team Working Remotely (Own figure based on (About Remote, n.d.))

2.8 Competition

Although there is a lot of competition in the EOR services business, Remote completely owning their entire infrastructure (Lunden, 2021) adds to their competitive advantage. The two founders purposefully created Remote from the ground up in a fully integrated way so that they did not need to rely on a third-party entity like many of their competitors (Lunden, 2021). From Scott Orn's interview with van der Voort (2021), the CEO explained that in the third-party entity model, a person owns an entity in Portugal, for instance, and the EOR company asks that person if they can use their entity to employ people through their own EOR company. Going through a middleman like this is commonly used by EOR companies since it is less expensive and eases the responsibilities of the EOR company (Orn, 2021).

However, van der Voort had a couple key motives to not use someone else's entity. From the same interview with Orn (2021), van der Voort said that *"the reason for that is one, transparency; we want that if our customers employ someone through Remote, it's as Remote and not something else, and two, we wanted to be fully vertically integrated."* Although this was a priority for Remote, Van der Voort divulged it was not an easy process. Also in the same interview, he detailed, *"it has cost an immense amount of money and an immense amount of blood, sweat, and tears"* and is very challenging to maintain (Orn, 2021). On the proponent side, it means Remote can onboard someone rapidly and has in-house experts in every country they have entities in (Orn, 2021).

Looking at Remote's competitors, they include a plethora of regional players as well as many start-ups. For the other start-ups, they comprise of companies like Deel and Papaya Global who have also achieved unicorn status (Lunden, 2021). Previously, many companies opted not to hire internationally or solely in specific cases due to its high cost and time consumption. In more recent years though, companies like Remote saw this prospective growing market as an opportunity to lower *"barriers to entry by making it as easy to hire and mange a person abroad as it is in your own city"* (Lunden, 2021).

2.9 Location Differences

Regarding diverse time zones and having employees who work from everywhere, Matos said Remote was able to operate with ease by using async (asynchronous) communication. From the Remote website and written by Lebre himself, async communication is where employees are able to prioritize the execution of their tasks to align with their own schedule. *"In asynchronous work, communication is not expected to be immediate, meaning workers can fine-tune work to reduce pressure on themselves and their colleagues"* (Lebre, 2022). A depiction of synchronous versus asynchronous work in Figure 7 can be viewed.

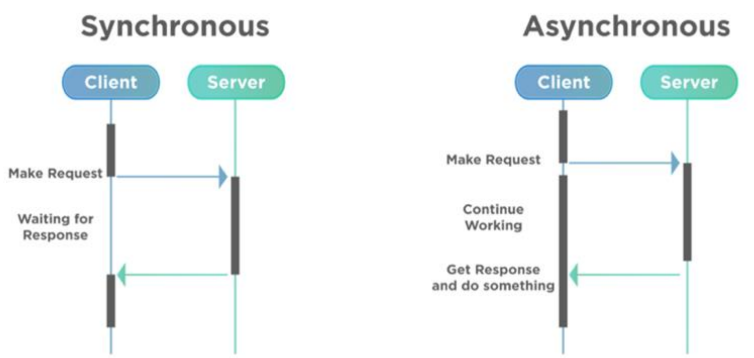

Figure 7: Synchronous Versus Asynchronous Work (Khetarpal, 2021)

Async communication included documenting every single thing. Matos said they use a plethora of communication vessels like audio messages, videos, Slack, and more. This is not only because of the time zone differences, but also because Remote does not have a fixed working schedule so there is no expectation nor need to respond to a message or email right away.

From Matos, the key to good documentation for async communication is, *"it needs to be relevant, it needs to be transparent, and it needs to be well-structured so no one depends on hearing you synchronously to understand something and to be able to move onto the next step so working async makes all this magic happen."* Even though Remote has over 1000 employees located in more than 40 countries, Matos proudly said async communication works beautifully for them and the time zone differences are not a problem.

2.10 Future Strategy

Looking toward the future, Matos said Remote wants to continue expanding to up to 140 countries. By the end of this year, their goal is to be in 100 countries. As they are in about 62 countries to date, Matos expressed that, *"as we expand, we go to more specific types of countries with jurisdictions that are more complex in terms of setting up entities there."* This is why it takes longer to set up their operations in these next countries than the previous ones. Overall, Matos was optimistic that they will reach their goal of 100 countries by the end of 2022.

III. Research Note

The Research Note of this dissertation highlights fundamental academic and business acumen principles that are relevant for the teaching note section that follows. This section covers the subsequent theories and frameworks: entry modes, CAGE distance framework, Porter's Five Forces, competitive advantage, and BGFs (Born Global Firms). From the research note, students will be able to apply these principles and tools along with information gathered from the case study to answer the questions in the teaching note.

1. Entry Mode

Previous research on entry modes has shown that firms choose different modes based on country-, industry-, and firm-specific factors (Pan & Tse, 2000). From this previous research, Pan and Tse (2000), view entry modes as a hierarchical issue tree: *"modes of entry can be first classified as equity-based and non-equity-based. At the next level of hierarchy, equity modes are further split into wholly owned operations and equity joint ventures (EJVs), while non-equity modes are divided into contractual agreements and export."* The issue tree can be seen in Figure 8.

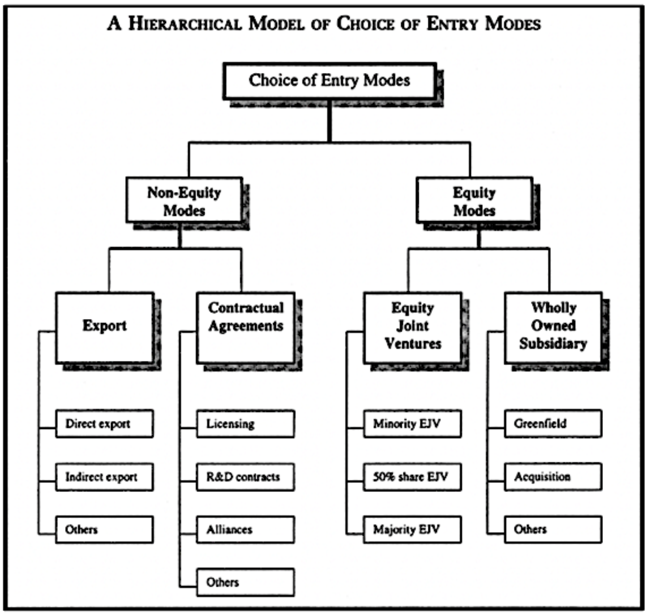

Figure 8: A Hierarchical Model of Choice of Entry Modes (Pan & Tse, 2000)

On the non-equity side, which are entry modes that do not require equity investments, Pan and Tse (2000), describe how many firms find exporting desirable due to the low risk and resource commitment. Operating in a foreign market can be seen as risky since a company has to adapt to the differences in political, cultural, and market systems so exporting first offers a gradual inclination to operating fulling in that overseas market (Johanson & Vahlne, 1977; Pan & Tse, 2000). Also on the non-equity side are contractual agreements like licensing, R&D contracts, and alliances which can be a strategic entry mode for companies with limited funds (Pan & Tse, 2000).

Shifting to the equity, or foreign direct investment (FDI) side, both EJVs and wholly owned subsidiaries require a substantial resource commitment to set up an independent operation in the foreign market (Anderson & Gatignon, 1986; Pan & Tse, 2000). These modes are inherently riskier than the non-equity modes, but also offer greater control and personal commitment for the entrant (Anderson & Gatignon, 1986). If a company decides to enter a market with an equity mode, it is imperative to have constant direct management on the ground and maintain relationships with local parties (Contractor, 1990; Pan & Tse, 2000).

For wholly owned subsidiaries, this is where companies are created from the ground up (i.e., greenfield investments) or where they acquire another company (i.e., acquisitions) (Barkema & Vermeulen, 1998). This type of entry mode offers the greatest personalization for the company where they can send some of their employees to the new country to handpick local talent to hire (Hofstede, 1991) and can also form local partnerships to understand the local business practices in that country better (Barkema & Vermeulen, 1998).

2. CAGE

To measure the impact of distance, Ghemawat (2001) created the CAGE distance framework to aid companies in their decision to expand to a foreign country. CAGE stands for cultural, administrative, geographic, and economic (Ghemawat, 2001). The four types of distance, Ghemawat (2001) states, help companies to measure the influence of distance on certain industries as well. For instance, in Figure 9, it is shown that cultural distance affects industries or products with higher linguistic features (i.e., television) and geographic distance more heavily affects financial services where close communication is important (Ghemawat, 2001).

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
attributes creating distance	different languages different ethnicities; lack of connective ethnic or social networks different religions different social norms	absence of colonial ties absence of shared monetary or political association political hostility government policies institutional weakness	physical remoteness lack of a common border lack of sea or river access size of country weak transportation or communication links differences in climates	differences in consumer incomes differences in costs and quality of: • natural resources • financial resources • human resources • infrastructure • intermediate inputs • information or knowledge
industries or products affected by distance	products have high linguistic content (TV) products affect cultural or national identity of consumers (foods) product features vary in terms of: • size (cars) • standards (electrical appliances) • packaging products carry country-specific quality associations (wines)	government involvement is high in industries that are: • producers of staple goods (electricity) • producers of other "entitlements" (drugs) • large employers (farming) • large suppliers to government (mass transportation) • national champions (aerospace) • vital to national security (telecommunications) • exploiters of natural resources (oil, mining) • subject to high sunk costs (infrastructure)	products have a low value-to-weight or bulk ratio (cement) products are fragile or perishable (glass, fruit) communications and connectivity are important (financial services) local supervision and operational requirements are high (many services)	nature of demand varies with income level (cars) economies of standardization or scale are important (mobile phones) labor and other factor cost differences are salient (garments) distribution or business systems are different (insurance) companies need to be responsive and agile (home appliances)

Figure 9: The CAGE Distance Framework (Ghemawat, 2001)

3. Porter's Five Forces

Michael E. Porter, stated in his 1979 Harvard Business Review article, "How competitive forces shape strategy," that competition in an industry is contingent on five basic forces: threat of entry, bargaining power of suppliers, bargaining power of customers, threat of substitutes, and competitive rivalry, as depicted in Figure 10.

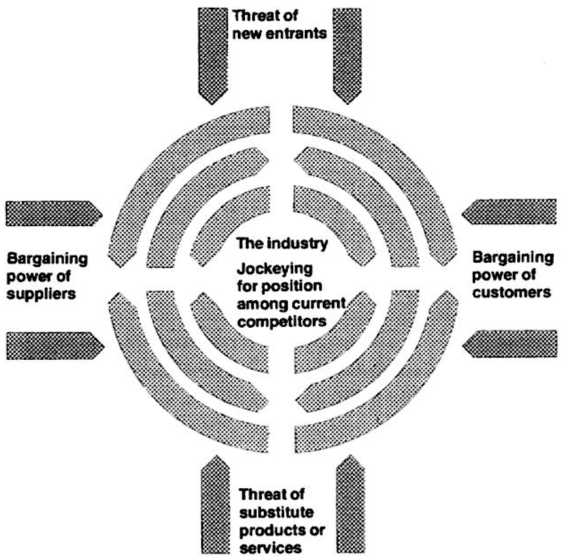

Figure 10: Forces Governing Competition in an Industry (Porter, 1979)

To define each force, threat of entry is when other companies enter the industry. When they enter, Porter (1979) says they *"bring new capacity, the desire to gain market share, and often substantial resources."* Further, there are six main causes of barriers to entry that, if high, can deter a new entrant from entering the industry: economies of scale, product differentiation, capital requirements, cost disadvantages independent of size, access to distribution channels, and government policy (Porter, 1979).

The second and third forces from Porter (1979) are bargaining power of suppliers and bargaining power of customers. Suppliers can raise their bargaining power by increasing prices or reducing the quality of their goods and services purchased in an industry (Porter, 1979). Similarly, Porter (1979) details that customers can demand higher quality products, force prices down, or play competing customers against each other, which all affect the industry's profits. For threat of substitutes, a price ceiling can be created by the substitute products or services to restrict an industry's potential (Porter, 1979). The industry may endure lower earnings and growth from this ceiling, Porter (1979) states, unless products or services can upgrade their quality or differentiate themselves by marketing, for instance. Lastly from Porter (1979), rivalry in an industry can be seen as *"price competition, product introduction, and advertising slugfests."* It is related to a variety of factors in an industry like having numerous competitors, slow industry growth, lacking product or service differentiation, high fixed costs, or high exit barriers (Porter, 1979).

In an industry, Porter (1979) details that the ultimate potential profit is determined by the collective strength of these forces. When a company is aware of these forces' collective strength, they are able to better position themselves to either defend against the forces or influence them in favor of the company (Porter, 1979). Together, Porter (1979) concludes that these forces shape the company environment, position, and impact in the industry.

4. Competitive Advantage

From Peteraf and Barney (2003), *"An enterprise has a Competitive Advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market."* In this quotation, "economic value" alludes to the difference between consumers' perceived benefits, or willingness-to-pay, and the economic costs (Peteraf & Barney, 2003). For a company to generate more value than its competitors, Peteraf and Barney (2003), detail it is imperative to create greater net benefits by differentiating or by lowering costs.

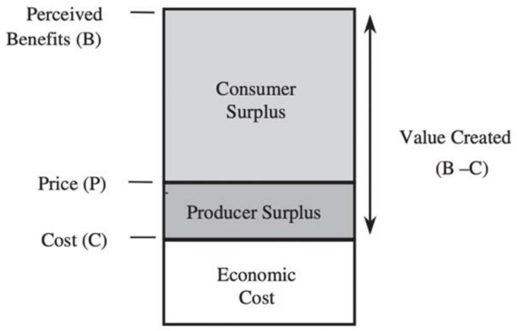

Figure 11: Economic Value Concept (Peteraf & Barney, 2003)

To hold a competitive advantage, Peteraf and Barney (2003) state that a company needs only to be better than their marginal competitor which demonstrates that a competitive advantage can be held by many firms in an industry. This also implies that there can be multiple ways to gain a competitive advantage so a company does not need to be a top performer in all dimensions but should strive to be better than the rival who is least proficient at breaking even (Peteraf & Barney, 2003).

5. BGFs (Born Global Firms)

Consistent with a variety of scholars (e.g., Autio et al., 2000; Knight & Cavusgil, 1996, 2004; Oviatt & McDougall, 1994; Rennie, 1993), BGFs (Born Global Firms) can be defined as firms who, from or near their inception, pursue international markets to attain greater global business performance. Often referred to as *international new ventures (INVs)*, *early internationalizing firms (EIFs)*, or *global start-ups*, BGFs have been made apparent during the age of technological advancements and globalization (Knight & Cavusgil, 2004).

Even though newer firms have less financial, human, and tangible resources, BGFs have been shown to internationalize from their domestic market to their first foreign market within 3 years (Autio et al., 2000; Knight & Cavusgil, 2004; McDougall & Oviatt, 2000; OECD, 1997; Rennie, 1993). The flexibility of smaller and younger firms seems to be an added benefit for entering and succeeding in international markets (Knight & Cavusgil, 2004).

For the external global business ecosystem, Knight and Cavusgil (2004), believe young firms' desire to internationalize is driven by two major trends: the globalization of markets and technological advances. Both trends have significantly decreased the transaction costs of expanding to foreign markets and have made the option more attractive and viable for firms (Knight & Cavusgil, 2004). The first one, globalization of markets, *"involves countless firms in international sourcing, production, and marketing as well as cross-border alliances for product development and distribution"* (Knight & Cavusgil, 2004). Globalization, Knight and Cavusgil (2004) state, has helped create more homogeneity of worldwide buyer preferences which, in turn, has streamlined product development and positioning in international markets.

Technological advances, the second trend, includes global logistics, production procedures, and technologies in information and communication (Knight & Cavusgil, 2004). These advances have decreased business transaction costs and accelerated superior trade growth worldwide which, with the addition of e-mail, the Internet, and other technologies, have aided in the cost-effectiveness of internationalizing (Knight & Cavusgil, 2004).

IV. Teaching Note

1. Introduction

The following teaching note serves as a guide for the instructor on how to approach this case study in a classroom setting. It is comprised of the synopsis, the teaching objectives, suggested assignment questions, and the analysis and discussion. The answers given are recommendations and other relevant answers brought up, like in a class discussion, may also pertain.

2. Synopsis

This case study focuses on the phenomenon of Portuguese unicorns, specifically OutSystems and Remote, who, both early in their lifetimes, internationalized to the U.S. In the enterprise software industry, OutSystems provides a low-code software platform that allows companies to quickly create and use applications critical for their business operations. Remote is a vertically integrated company who created a platform to assist companies in hiring, paying, and managing their remote employees worldwide.

Both companies' founders desired to be in the U.S. from their companies' births and internationalized rapidly when they saw the chance. For OutSystems, this came about five years after their inception when they secured their first U.S. customer and for Remote, this was right at their founding with the acquisition of the job dashboard, remote.com.

The case study and research note provide the necessary information to evaluate both companies' expansion processes to the U.S., the challenges they faced, and the importance of setting up operations in the U.S. early as a technology start-up.

3. Teaching Objectives

This case study intends to offer students a real-life example of how to analyze the internationalization processes and strategies of companies, specifically start-ups, who expanded their operations globally. The questions revolve around competitive advantage, market entry modes, and internationalization strategies and will allow students to utilize frameworks and tools taught in their studies to answer the questions.

This case is geared toward undergraduate and postgraduate students in the areas of business, management, innovation, and strategy. This case study is ideal for strategy, innovation, or management courses that focus on topics like business internationalization, competitive advantage, and adaptive strategies.

4. Suggested Assignment Questions

The following questions are suggestions to help students understand and analyze the case study. Depending on time constraints, the instructor can have students read and answer the case questions as a take-home assignment or read the case study prior to class and in class, get into small groups to answers the questions together. Some of the questions are open-ended and, as such, allow for various approaches and analyses which can be discussed in an in-class discussion based on the instructor's preference.

1. What are OutSystems' and Remote's sources of competitive advantage and how do they sustain them internationally?
2. Analyze the attractiveness of the industry OutSystems and Remote operate in.
3. What were the internationalization strategies for both companies to expand to the U.S? Also discuss the incentives OutSystems and Remote may have had to start out as Born Global Firms (BGFs).
4. Analyze OutSystems' and Remote's decisions to enter the U.S. market, utilizing the CAGE distance framework.

5. Analysis and Discussion

Here are the potential solutions and analyses with the corresponding case study and research note knowledge utilized. Instructors are advised to use these solutions as a guide for the assignment discussion.

1. What are OutSystems and Remote's sources of competitive advantage and how do they sustain them internationally?

<u>OutSystems</u>

OutSystems' competitive advantage was derived from their solution being 12 years ahead of its time. Even though the founder, Paulo Rosado, believed 12 years was a long time to wait for companies to become open to their solutions, it allowed them to continuously improve their products, properly expand into the U.S. market, and pioneer the low-code market.

From the Gartner Magic Quadrant, OutSystems is shown, among four other companies, as a Leader. They are distinguished by their ability to develop applications faster and their use of AI-augmented advancements compared to their competitors. These capabilities help to deliver OutSystems with a competitive advantage, but their competitors may also have a competitive advantage as well, as per Peteraf and Barney's (2003) definition of competitive advantage. The competitors' advantages could be gained in different areas like having a clearer pricing scheme than OutSystems or having a more vertical or industry focus rather than OutSystems' generalized solution options.

A way that OutSystems is able to sustain their competitive advantage internationally is due to their presence in the U.S. and from receiving investments from U.S. investors. It can be said that the perceived benefits consumers, specifically American ones, get from OutSystems being a U.S. company and OutSystems' diverse products adds to OutSystems' competitive advantage.

Remote

For Remote, their main source of competitive advantage comes from being fully vertically integrated. Since they own and operate entities in over 60 countries, they are able to assist companies with EOR services like employing remote workers in these countries, paying them in the currencies they desire and remaining compliant with the local regulations.

Many companies decide to use an EOR because setting up local entities can be pricey and take a lot of time, especially if a company wants to hire people from different countries. This is where Remote comes in to bridge the gap between the company who is located in one country and the future employee who is located in another.

Remote's competitors, who are also in the EOR business, have less of a competitive advantage than Remote since many of them utilize third-party's entities in the countries they operate in. This can pose challenges since, unlike Remote, the competitors are reliant on a third-party to fulfill the needs of their customers instead of being able to fulfill them themselves. If there is an issue with the payroll or legal implications that one of the competitor's customers complains about, the competitor will most likely not be able to solve the problem quickly since they will have to first discuss the problem with the third-party where Remote will only have to confer internally to fix the issue.

Although the founders of Remote said the process to become fully vertically integrated took a lot of money, time, and dedication, the advantages they have received that allow them to be competitive have made it worthwhile for the company's prosperity, hence their unicorn status. The pandemic and work-from-home wave also played in Remote's favor and helped companies to realize their employees could be productive outside of the office. It also lessened the barriers for companies to hire the best talent regardless of where they were located.

Remote sustains their competitive advantage internationally by continuing to offer their vertically integrated EOR services and setting up entities in more countries.

2. Analyze the attractiveness of the industry OutSystems and Remote operate in.

Both companies operate in the technology industry but since the industry is broad, it is beneficial to identify the industry sector the companies fall into to create a more accurate analysis of the sector's attractiveness.

OutSystems and Remote can be segmented into the enterprise software sector since OutSystems develops low-code, AI applications for businesses to streamline processes or modify their customer experiences and Remote offers human resource services like taxes and payroll for companies with remote workers. Rather than for individuals, enterprise software is computer software that satisfies the needs of organizations. Within enterprise software, OutSystems can be further categorized into the Low-Code Application Platform (LCAP) segment and Remote into the enterprise resource planning (ERP) segment. Since the LCAP and ERP segments may be too specific to analyze, the Porter's Five Forces model will be conducted for the overall enterprise software sector.

Threat of Entry

The potential barriers to entry for the enterprise software sector are the high capital requirements, economies of scale, product differentiation, cost disadvantages independent of size, and government policy. Software solutions require large initial investments and economies of scale to enter and be competitive in the industry. For product differentiation, customer loyalty can play an important role. Entrants will be competing with many established brands so they will need to invest a significant amount of money in advertising and marketing. Entry can also be threatened by government licenses and restrictions, high spending on research and development, and proprietary technology. Overall, there is a low threat of new entrants.

Bargaining Power of Suppliers

The main supplies needed for the enterprise software sector is the hardware like computers and servers and the developers to develop the software. Besides that, many companies produce their own products and services. Regarding the power of the suppliers, there are a large number of current suppliers in the sector which makes it difficult for new suppliers to enter. Buyers also have differentiated materials and services they purchase from their suppliers so companies cannot easily switch suppliers either. Concluding, the bargaining power for suppliers is low in the enterprise software sector.

Bargaining Power of Customers

There are many customers compared to companies in the enterprise software sector and they can potentially purchase large quantities of the companies' products/services. Many products and services are differentiated in the sector though, and are of higher quality, so customers tend to be less price sensitive than in other industries. When it comes to enterprise software, customers can also face major costs when switching suppliers and may stay with their current one because of that. They are also more likely to be satisfied and stay with their current supplier when the company's product or service positively drives their performance and saves them money, like when utilizing software solutions. All in all, customers have low bargaining power.

Threat of Substitutes

As enterprise software includes ERP, LCAP, and many other applications, substitutes that also offer these services are limited. Therefore, the threat of substitutes is very low.

Competitive Rivalry

The enterprise software sector is highly competitive and includes rivals of various sizes. With the increase in technological advancements, the sector is still growing which allows room for more entrants with disruptive solutions. The fixed costs for software development are high, but since the marginal costs are relatively low, the sector can enjoy economies of scale which can decrease the temptation to cut prices. Products and services in the sector are also quite diverse and market shares are not equally distributed which helps to ease price cutting as well. Due to the high exit barriers, rivals may continue to compete even if they are earning low or negative profits in the industry. In summary, there is high competition in the enterprise software sector.

3. What were the internationalization strategies for both companies to expand to the U.S? Also discuss the incentives OutSystems and Remote may have had to start out as Born Global Firms (BGFs).

OutSystems

OutSystems utilized a greenfield investment entry mode by starting up their business from scratch in the U.S. This is an equity mode which led OutSystems to wholly own their operations. OutSystems was conceived in Portugal, but the founder was adamant to expand their operations to the U.S as quickly as possible. When OutSystems secured this first U.S. customer, the founder first sent Baltazar to manage the customer's projects while gradually looking to hire local American talent. To do this, OutSystems took advantage of government agencies like AICEP and the Consulate General of Portugal in San Francisco who assisted them by sponsoring some of their Portuguese technical staff and generating initial leads for them.

Remote

Remote chose to internationalize to the U.S. by acquiring the domain, remote.com, in early 2019 which was already in existence as a job dashboard since 2017. This is an equity entry mode and allowed Remote to set up their own operations through the remote.com domain. This was a more convenient way for Remote to internationalize and enter the U.S. market while still wholly owning their operations there instead of entering a joint venture, for instance.

Equity Modes Overall

Both OutSystems and Remote utilized equity entry modes to internationalize to the U.S. Equity modes are riskier than non-equity modes, like exporting or licensing but, if companies have the funds to enter a market in this way, they offer more control and flexibility for a company to operate the way they want. This seemed to be of importance to both OutSystems and Remote since OutSystems strived to be viewed as a U.S. backed company with their headquarters in the U.S. and Remote desired to be fully vertically integrated so they did not have to rely on middlemen while conducting business.

BGFs Overall

BGFs are firms that are international from the start which both OutSystems' and Remote's founders had in mind when creating the companies. Although it took OutSystems about five years to internationalize to the U.S. unlike Remote's instant U.S. expansion, OutSystems is still considered a BGF since they first ventured into Spain and Holland, where they had customers, prior to their U.S. arrival in 2006.

Baltazar and Rosado also said in interviews that OutSystems would have entered the U.S. market sooner except for a few detaining reasons: one, they had to wait for the market to catch up to their innovative, disruptive solution; two, at inception, they did not have the funds to expand to the U.S.; and three, they had to secure a U.S. customer first to properly enter the U.S. market. For these reasons, OutSystems' expansion happened in 2006 instead of 2001 when they were founded. All in all, both OutSystems and Remote became global quickly and, due to their technologically differentiated products, received funding from investors and achieved unicorn status.

From the research note, the two major trends that young companies in general are compelled by to internationalize are the globalization of markets and technological advances.

Both trends have also lessened the transaction costs of setting up operations in foreign industries.

This can be seen as beneficial and true for both OutSystems and Remote. OutSystems specifically desired to achieve global business performance and they felt like to do so, they needed to be a competitive player in the U.S. market first. Remote also strived, and is still striving, to be a global leader in EOR services which ultimately started with them acquiring remote.com in San Francisco.

Regarding globalization, it has streamlined global buyer preferences which has made it simpler for companies to develop and position their products for a universal audience. Although this can depend on the specific product and buyer, more and more companies are going global, even from near inception like OutSystems and Remote, which demonstrates that a large majority of the world market is susceptible to internationally created products.

As both companies operate in the software world, technological advances have also assisted them in their expansion (i.e., being able to operate smoothly with their employees and customers located all over the world) and OutSystems and Remote have also added to the advances in technology with their solutions.

4. Analyze OutSystems' and Remote's decisions to enter the U.S. market utilizing the CAGE distance framework.

<u>OutSystems</u>

Since OutSystems started in Portugal, its necessary to analyze the different CAGE distances between Portugal and the U.S. Regarding cultural distance, Portugal and the U.S. do have different country languages, Portuguese and English, respectively. This does not create more distance for OutSystems though because they have always operated and had their website in English rather than Portuguese. Baltazar did mention that a cultural area where OutSystems felt distance was regarding the diverse social norms of Portuguese people compared to Americans. He also said that the U.S. has many different cultures within itself as well which makes the cultural distance more complex to bridge. For OutSystems, they really noticed the difference in terms of salespeople and marketing. To combat this, they hired American sales and marketing people who could better relate to their American customers.

For the administrative distance, there does not seem to be a large distance for OutSystems' product since Portugal and the U.S. have a good trade relationship. Although Portugal and the U.S are geographically distant, OutSystems' solution does not rely on geographic factors heavily since OutSystems is a software company without a tangible product. They did have some difficulties when their headquarters was located in California though, but after moving to Boston and with the use of communication outlets, OutSystems closed the distance gap for geographic distance.

Lastly for economic distance, OutSystems has flexible payment plan subscriptions and can provide personalized quotes to potential customers which is where they may be able to bridge the distance in company incomes to serve more customers while keeping in mind their willingness-to-pay.

Remote

For Remote, they mostly serve customers who operate in English and in turn, their customers hire employees who also have a good command of the English language which diminishes the language barrier, especially pertaining to the U.S.

Next, for administrative distance, this is where Remote's business comes into effect since they offer EOR services that deal with payroll, taxes, and legal implications. Their experts have to keep up to date with changing country- and state-specific government policies, benefit packages, and payment options. When delving into this business though, Remote knew the administrative side would be the most challenging for them, but it is also the majority of their business, which is why they strived to be vertically integrated in every country they set up an entity in. Being vertically integrated allows Remote to monitor their entities and business operations more closely in every state and globally.

Regarding geographic distance, there is a plethora of distance between their entities and employees since they are located across the globe, but since Remote uses async communication and has a digital business, Matos said that the distance does not impact their ability to conduct their operations. Finally for economic distance, Remote also has differing pricing schemes and the option for prospective customers to receive a quote which can help them lower the economic distance and personalize the pricing based on customers.

CAGE Overall

From the CAGE distance framework, the proponents of conducting business and operating in the U.S. outweigh the challenges identified above. OutSystems was able to utilize technology and local American personnel to combat the distance between Portugal and the U.S. and Remote's business objective was to operate their fully integrated EOR business worldwide and in every U.S. state which they have succeeded in doing by staying updated and knowledgeable about their weakest distance link, administrative distance.

V. Conclusion/Limitations

This dissertation was written in a pedagogical fashion for students to have an inside look at the international expansion process of Portuguese unicorns to the U.S. In the research note, students were provided frameworks and tools for the analysis and discussion of the unicorns' expansions in the teaching note. The pedagogical format allowed students to utilize the frameworks learned in their studies and apply them to the internationalization decisions made by the companies.

From the teaching note analysis, both OutSystems' and Remote's capabilities have provided them competitive advantages that have allowed them to expand to the U.S. and elsewhere. For OutSystems, this came from their ability to develop applications faster and their advancements in AI-augmentation. Remote's is derived from being vertically integrated where most of the competitors are not. Both companies are able to sustain these advantages due to their innovative and disruptive solutions. OutSystems was fortunate to have been a pioneer in the low-code market and to have had such an international focus, especially on the U.S. market, since the beginning. Remote's vertically integrated advantage allowed them to be competitive in the worldwide EOR market with the backing of a U.S.-based topco and investors.

When analyzing the attractiveness of the enterprise software sector with the Porter's Five Force model, the apparent threats of all forces, except rivalry, are low. Threat of entry is deemed low due to the high initial investments and economies of scale needed to be competitive, bargaining power of suppliers is low since there are many suppliers in the industry, bargaining power of customers is also low as customers are less price sensitive to enterprise software services that positively drive their business performance, and threat of substitutes is low as well since software does not have a clear alternative. For the high rivalry in the sector, fixed costs for software development are high and there are many competitors with diverse products and services to compete against.

For the CAGE framework, OutSystems' difficult distances were cultural and geographic as they needed to hire American employees, understand how to do American style marketing, and foster good company communication despite the distance from the U.S. to Portugal. For Remote, their biggest obstacle was the administrative distance due to their need to set up their business while remaining compliant in every state in the U.S and country they operate in.

Overall, both OutSystems and Remote found it imperative to be in the U.S. as a unicorn with Portuguese DNA due to the U.S. customer base, investors, competitive landscape, and the perceived prestige, for OutSystems, that comes with being a U.S.-based start-up and the tax benefits in the U.S. for Remote. They greatly benefited from their founders' global visions, likeminded employees, disruptive solutions, and the organizations and councils that assisted them on their international journeys.

Regarding limitations, only two out of the six Portuguese unicorns who expanded to the U.S. were interviewed and only one interview was conducted with each company. This was due to the unicorns' availability and response times to schedule interviews. Interviewing three or four of the Portuguese unicorns may have generated a more well-rounded analysis of the companies' internationalization strategies and let to deeper insights and discussions in the teaching note.

Also, the disparity between OutSystems' and Remote's ages can be seen as a limitation as well since OutSystems has been around for 21 years while Remote is only three years old. For this reason, the history and detail provided about OutSystems in the case study is more in-depth than Remote's. If the unicorns were founded around the same time, it may have led to a more synonymous analyzation of their expansion processes and challenges faced.

For further pedagogical studies on the internationalization of Portuguese unicorns to the U.S., bridging the gap on these limitations could be a good start. For further research on this topic, it is recommended to analyze Portuguese unicorns' U.S. expansion from an industry research perspective to add to the literature of unicorns' internationalization strategies.

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