



## **Me & You Innovate: When a large client gets COVID-19**

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## **Abstract**

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The Case Study addresses a dilemma of Me & You Innovate, a Portuguese SME that builds high-quality products for the Metalworking Industry. The company faced a huge challenge when the pandemic emerged, since many businesses had to cease their activity in order to survive to the upcoming crisis. One client represented a very high share of M&Y's revenues, making its business extremely vulnerable.

When this client cancelled a major order, Me & You had to look for alternatives solutions in order to face this unexpected situation.

Along the Case Study diverse topics such as high customer-concentration, opportunities of covid-19 on business management and internationalization are open for debate.

The Thesis includes a Literature Review analysing the topics relevant for the issues raised in the Case and a Teaching Note to help instructors to prepare the in-class discussion of the Case.

## **Resumo**

O Case Study aborda um dilema da Me & You Innovate, uma PME portuguesa que fabrica produtos de alta qualidade para a Indústria Metalomecânica. A empresa enfrentou um desafio enorme com o surgimento da pandemia, já que muitos negócios tiveram que cessar atividade para poder sobreviver à crise iminente.

Um dos clientes representava uma parte muito alta das receitas da M&Y, tornando o seu negócio extremamente vulnerável. Quando este cliente cancelou uma encomenda importante, a Me & You teve de encontrar soluções alternativas de modo a fazer face a esta situação inesperada.

Ao longo do Case Study diversos temas como a alta concentração de clientes, oportunidades de gestão de empresas provenientes da COVID-19 e internacionalização estão em aberto para debate.

A Tese inclui uma Revisão da Literatura que analisa os tópicos relevantes para as questões levantadas no Caso e uma Teaching Note para ajudar os instrutores a preparar a discussão do Caso em aula.

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## Case Study

It was a bright day of March 2020, in Seixal, Portugal, when Carlos Almeida CEO of Me & You Innovate, realized that difficult times were looming ahead. With the beginning of the COVID pandemic, the company's top customer suspended all its activity.

Founded in October 2012, Me & You started its business providing innovative solutions in the field of metalworking, manufacturing products in different types of sheets, for the national market. The Portuguese world leader in biometric supplies for airports, Vision-Box SA, accounted for 50% of the previous year's two million Euros sales volume of Me & You, and most of its orders were canceled.

This terrible surprise could lead to an abrupt collapse of the Me & You business and required several urgent meetings with the co-founders Manuela Veríssimo, Sales Director, and José Carlos Silva, CFO, to discuss the company's future. It was time to think seriously about the internationalization options that had been raised in the recent past.

## First steps

Me & You Innovate was born from a project aimed to create a metalworking organization to operate in areas such as telecommunications, electronics, medical, aeronautical, energy, automotive and military industries. The company's growth would be based on partnerships developed with clients from these markets, without neglecting a constant search for new customers/markets, using platforms like TechPilot<sup>1</sup> to obtain inquiries from potential partners.

Since its foundation, the company wanted to be recognized as an organization specialized in the design, development, and production of high-quality metallic equipment and components. M&Y either manufactured entire projects or special parts for them, selling small series of products that could cost 1€/2€ per unit or developing a whole project that could reach several thousand euros. The small parts that the company developed were, for instance, pieces for biometric airport check-ins systems and specific metallic structures (**See Exhibit 1**).

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<sup>1</sup> Platform for the manufacturing industry, where suppliers can take advantage of strong online visibility and media reach.

Examples of projects entirely designed by the company were products like machines for automatic payments at tolls, radars installed on highways, charging stations for electric cars, transformer stations for Siemens, one of the world's largest energy-efficient producers, and the 360S Simulator for Benfica, a Portuguese football team (**See Exhibit 2**). To meet its client's expectations, it was key that its employees had the required skills. For that, Me & You had to understand how the market worked, which type of technologies would be necessary, and to hire the right staff.

The company's manufacturing process was essentially based on the production of small series, and they were produced on a make-to-order basis. However, if one customer regularly ordered one type of goods, Me & You would bet on manufacturing larger batches to keep in stock, not only to optimize production processes but also to surprise customers with lower delivery times. Nevertheless, there was always a moderate risk of these items not being ordered in the future and it was not the company's policy to make to stock.

As soon as the company received an order, the first step was to calculate the number of materials needed (its main suppliers were steel, stainless steel, and aluminum wholesalers as well as paints, screws, hardware, and packaging material manufacturers), and only afterward go through the production planning. Usually, the delivery time for complex projects, like the 360S simulator, was between six to eight weeks after receiving the order.

Technology was fundamental for M&Y product designs. "We can say that, without the use of technology, we would be completely cut off from the market where we intend to operate", stated Bruno Dias, Me & You's chief of engineering and production planning. All the products M&Y manufactured were first created by the head of the design department, Sónia Cruz, and then Rúben Veríssimo and Daniela Almeida, both head of the programming department, instructed the machines to do it as required. From the conception of the idea to the manufacturing itself, the company used technology in every step of the production process. M&Y used specific software, like *Solidworks*<sup>2</sup>, to carry out the design of prototypes

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<sup>2</sup> *Solidworks* is a software created by Solidworks Corporation used to develop mechatronics systems from beginning to end. It is used for planning, visual ideation, modeling, feasibility assessment, prototyping, and project management.



(See Exhibit 3) and state-of-the-art equipment such as *laser cutting machines*, *CNC bending machines*<sup>3</sup> and *robotic welding*, to bring them to life (See Exhibit 4).

M&Y's started early its international expansion and initially focused on Germany, Austria, and Holland, a result of participating in a metalworking trade fair in Paris in 2015. By that year, the company had surpassed the one-million-dollar sales volume and in 2019 revenues increased by 51% over 2016 (See Exhibit 5 for national and international billing per year).

At this moment the company started to expand its customer base and opened opportunities to diversify its export, developing charging and transformer stations for these markets. This milestone was very important for the company. M&Y had strengthened its relationship with these foreign firms over the years, although, because of many requests from the domestic market, exports were being a little neglected until 2019. External markets contributed with only 21,55% of the 2019 billing. The management team felt that participating in trade fairs was a great way to gain visibility, explore competitive markets and effectively allow other companies to know how the Portuguese manufacturing market worked and what type of products were produced, and to contact potential partners.

“The continuous increase in turnover is mainly based on three crucial factors: increasing the company’s equipment, the number of employees, and also the space where we work”, said M&Y’s CFO. In 2013, there were very few machines, eight workers, and a 600 square meters plant. By 2019, the metalworking company had increased and modernized its equipment, had a 38-employee team with 8 permanent workers, and operated in a plant larger than 3,000 square meters (See Exhibit 6 for the organizational chart and Exhibit 7 for plant pictures).

Me & You envisioned three main points:

- The excellence of its products, as well as the strong commitment to the professional training of its employees to ensure the sustainability of the business;

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<sup>3</sup> CNC (Computer Numerically Controlled) bending is a manufacturing process that is carried out by CNC press brakes. These machines can bend sheet metal just a few mm or sections with many metres long.

- The relationship with the suppliers, based on the search for quality materials that satisfied its manufacturing chain, as well as the best delivery times;
- Continuous improvement of the effectiveness of the Quality Management System.

### **Industry and Competition**

The metalworking industry was characterized by being extremely competitive, providing machinery and inputs to many economic activities. The type of machines used were expensive and the workers who operated them needed to have experience in the industry. Finding the right suppliers could also be challenging.

Companies needed to develop close relationships with steel and iron producers so that they could develop a structured, solid, and reliable supply chain. Entering this market required overcoming entry barriers such as a high level of capital, human investment, and innovation. New entrants either offered a cheaper good, created new or different products, or specialized in one type of product.

Metalworking required high complexity and high complexity processes. Hereupon, customers were always searching for partners that could provide a service with the best product quality at the best price in the best delivery time possible.

That was why the future of the modern metalworking industry went hand in hand with technology and automation, to increase customer satisfaction. Throughout the years many technological improvements had been made to both conventional and special/precision tools, with new solutions that contributed to the optimization of manufacturing processes. There was a vast range of metal cutting machines and tools for this industry, from small machines that were simply attached to worktables to huge manufacturing machines that weighted several tons, like the CNC bending and laser-cutting machines.

Companies needed to be constantly leveraging technology so that they could work smarter, better, and faster trying to get a foothold in the market share. It was, therefore, essential that M&Y would focus on continuous improvement, maintaining a motivated team, and modern equipment since the market was very dynamic and competitive. If competitors could present more competitive conditions, such as prices, delivery times, and quality materials to customers and partners, this would jeopardize of M&Y's existing partnerships.

The company's main competitors were all the metalworking companies that worked in the subcontracting sector and had similar human and technological skills. In Portugal, the main players that shared the market with M&Y were M3T, RARI, Salemo&Merca, Cubotonic, MCG, and EPROM.

### **The COVID-19 crisis**

Due to the pandemic, in March 2020, Vision-Box was forced to suspend all activity, and its last orders had to be cancelled. The client was not going to be able to sell it. M&Y's top customer had represented an important share of the company's business throughout the years **(See Exhibit 8 for Vision-Box weight on M&Y's revenues)**. And now it had just cancelled orders worth more than 100.000€. In addition to this cancelled orders, that were already in progress, the company had manufactured some goods for stock because this client used to regularly order the same type of products. Some other customers also requested the postponement of orders that were in progress. This scenario of uncertainty about the future of the company led M&Y's management to immediately rethink the company's strategy, trying to ensure the viability and sustainability of its activity. Thus, the management immediately suspended the operations and reached an understanding with all the workers to take a two-week vacation, allowing the company to reorganize the annual production schedule. To ensure that the customer's needs were satisfied, it was key to manage the human capital. Thus, all the workers from the welding, bending, and grinding departments started working extra hours so that, depending on customers' orders, the company could comply with the stipulated delivery times. At the same time, a "simplified layoff"<sup>4</sup> mechanism was used, sponsored by the Government, which for two months would help to support all the wages. In the last week of March, M&Y and Vision Box agreed to settle all the outstanding credit, which was key to provide enough time for the company to "redesign" its commercial strategy and access its potential internationalization options.

Similar problems had never happened, and to worsen the situation Vision-Box owed Me & You more than 400.000€ in past orders. The losses at risk were substantial, and the CFO was afraid it could cost them hundreds of thousands of euros. There were several online meetings,

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<sup>4</sup> The "*simplified layoff*" was an extraordinary measure to support the maintenance of employment contracts, with the government paying 100% of the wages of the workers concerned. This government support was available only during periods when the state of emergency was declared.

where the critical situation of the company was shared with Vision Box. In those meetings, M&Y with the help of its client planned which products, already in the intermediate stage of production, could be continued for the purpose of future orders and which ones should immediately be stopped, given that the customer would not be able to sell them.

Still, the situation created an inventory surplus problem and the company wanted to sell the existing stock. Given that the world was living a pandemic and there was a lack of prevention equipment, the company seized the opportunity, and used the surplus raw materials (previously for the Vision Box order) to make this type of products.

The risks of the project were small, considering that it didn't need a large investment. Materials like steel and stainless steel were used to respond to the growing demand from businesses that had to comply with new requirements for keeping operating throughout the pandemic. M&Y's engineering team started to design alcohol gel dispensers, and one week later the first devices were ready for delivery. Other models were made available to the market one and a half month later because the installed temperature measuring devices had components that had to be imported (**See Exhibit 9 for alcohol dispensers' pictures**). The production to stock was entirely done by M&Y, but in case of customized dispensers with, for instance, the customer's name and logo on the dispenser body, manufacturing started only after the order being placed.

M&Y created a digital catalog that was sent to all its contacts in its database and campaigns were also carried out through social networks to promote the new equipment. Sales were mostly for the national market, although a few orders came from a German customer. The revenues generated by this venture were around €250.000. The materials M&Y had in stock accounted for 50% of the dispenser's project and given the good acceptance by the market the company acquired more raw material so that it could continue to sell. At first M&Y was not sure how long the project would last because of the pandemic unpredictability, but soon realized that it would be a short-term type of business. The company understood that the market in the future would no longer seek this type of solution for COVID-19 prevention. At that time of insecurity, this temporary response could help the company to maintain its activity and jobs.

## **Going International**

Around 50% of the companies' revenues were at stake. The three founders had recently raised the internationalization issue. Manuela, M&Y sales director, suggested why not to invest in producing more for external markets since the company had already opened that door with Germany, Austria and Holland. Each of the three founders had some experience in this field, the CFO alone a fifteen-year background experience in working with external markets, before co-creating Me & You Innovate.

Having international reach would make M&Y stronger and potentially more successful. It would result in a broader client base, opening greater opportunities to expand. Despite being a SME<sup>5</sup> with limited resources, this could be what was needed to face the economic downturn. The three managers considered that betting on the foreign market could be the best option for the sustainability of the company and to compensate for the decrease in the local market due to the emergence of COVID-19.

Nevertheless, the managers were skeptical about following this strategy. Right from the start the management team knew there was a big hurdle. Capital injection would always be necessary. The company was already struggling to keep its activity running and could not support the big investment needed to raise productivity and respond quickly to the market abroad. Following such a strategy would also imply paying close attention to all the logistics costs that the company would incur, such as transportation and freight. The three founders weren't very pleased with the idea of incurring in more debt giving the financial situation the company was going through.

Exporting manufactured goods like, for example, the transformer stations that M&Y had produced for Siemens, from Portugal to Germany was not an easy task. The trade of manufactured goods faced logistical challenges and risks at every step along the way, including the possibility of damage, loss, and theft. Furthermore, M&Y would have to redouble the effort to minimize all production non-conformities since a single non-compliance when delivering the product implied not only the loss of credibility with the customer, but also high fees for recollecting, repairing, or replacing the affected parts.

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<sup>5</sup> SME is a Small and Medium-Sized Enterprise. Normally, these companies are non-subsidiary, independent firms that employ fewer than a given number of employees. The threshold in the European Union is 250 employees.

Entering overseas markets aggressively would involve a tremendous commitment of the companies' resources.

The three founders needed a strategic response to the dilemma they had on their hands, and as soon as possible. Otherwise, M&Y's activity would, for sure, continue to decrease. The internationalization idea was a strong possibility as it would be an effort to develop new markets for its products. However, the global market volatility was upsetting the team. The pandemic raised a lot of insecurity on matters like when and where to invest. For a firm to redirect all its efforts to internationalization meant adopting innovation strategies or completely adapting its business model to better respond to particular international needs. In the domestic market M&Y's business model could benefit from a competitive advantage but in another market it could be challenged. As a Portuguese firm with Portuguese workers, the company was also worried with one of its strategic pillars, which was to manufacture high quality products and add value in Portugal, with national labor.

Thus, investing in M&Y's export seemed to be the path to follow as it wasn't the first time the company was internationalizing and alternatives on the table were missing. When the company decided to start producing the alcohol dispensers the managers knew it was only a measure to mitigate the effects of the pandemic, when immediate action was needed to assure the continuity of the business. Another risk that was making managers second guessing this strategy was the fact that Portugal was very far from the center of Europe, one of the regions the company was planning to enter and where logistic costs would be high.

The lack of alternatives was leaving the three managers extremely impatient since the window to decide and take some action was closing. In the previous days several ideas were coming forward from the staff. Ideas start to emerge and four were chosen as the best ones. The head of the production department, Paulo Santos, thought that the best alternative was to expand the company's portfolio and start producing metalworking machines used in the metalworking industry. Bruno Dias, head of the engineering and planning department, felt that till that moment the health and safety equipment products commerce was going well and therefore they should keep producing and innovating in this field. Carlos Almeida was really impressed with this idea. José Carlos Silva, CFO, not so convinced with this, argued that this was indeed only a short-term type of business because it was going to be difficult to prosper in this industry. There were already many companies in the market with much more

capabilities. Instead, he believed that the right choice was to redirect all the company's efforts to the domestic market.

It was a difficult moment, which the company was living in, and one of the four choices had to be chosen. Now it was time to discuss the options and choose the best and most viable way to follow.

## **Literature Review**

In this chapter, relevant topics raised along the case are going to be addressed. This review will be helpful to better understand the problematic situation of the company as well as which strategic alternatives it should choose.

The reviewed topics are:

1. High customer concentration risk
2. Internationalization
3. Business's implication and reaction to the COVID-19 crisis

### **1. High customer concentration risk**

Customers are perhaps the most significant organizational assets, and corporations spend significant resources on acquiring and managing them (Alok R. Saboo, V. Kumar, & Ankit Anand, 2017) because, at the end of the day, customers are key to an organization's demand environment (Adner & Zemsky, 2006). Customer concentration states the number and volume of customers that contribute to companies' revenues. When a firm's general revenue's is mostly constituted by major customer/s purchases, that firm is assumed to have a high customer concentration level (Patatoukas, 2017).

As Saboo, Kumar, and Anand (2017) argue, although having strong relationships with a small set of customers can have some benefits, relying on one big customer or on a few customers only, might also have a negative impact on a firm's overall performance. On one hand, distributing revenues across a diversified customer base, allows managers to take more calculated decisions in the areas of managing costs, managing risks and strategic market positioning (Erik M. van Raaij, 2005). Nevertheless, the concentration of revenues on a few customers might lower the bargaining power of the firm relative to its customers because they can bargain more favorable contract terms (Galbraith, 1952), and increase the risk of customer churn, affecting the firm's activity. According to Porter (1980), the organizational ability to capture value is influenced by the bargaining power that the firm has over its clients, and again, having a concentrated customer base can influence the provider's firm capability of generating economic profits through capturing value. On the other hand, a portfolio which depends on the big customers for a large proportion of its sales has fewer relationships to manage when comparing with firms that have a low concentration level and thus can invest resources in these relationships in order to cultivate mutual trust and



commitment, creating additional benefits such as lower uncertainty and propensity to leave (Morgan and Hunt, 1994). According to Irvine, P. J., Park, S. S., & Yıldızhan, Ç. (2016) having a concentrated customer base simplifies resources combination and information sharing throughout the supplier chain, enabling companies to better manage their inventories, be more efficient and avoid the bullwhip effect.

Following the line of thought of Saboo, Kumar, and Anand (2017), high customer concentration means relying on a few customers, or on one large customer for revenues, if those customer/s are lost, the firm's activity would be significantly hurt. Normally, forecasting the demand tends to be easier when a small number of customers makes the same purchases regularly. However, the forecasting errors also tend to be higher, resulting in excess inventories or loss of sales (Chopra and Sodhi, 2004). Prior studies document that relying on a few major customers exposes firms to lower profit margins due to the strong bargaining power of major customers and to payment delays (Murfin and Njoroge, 2015), and higher risks of financial losses resulting from major customer's bankruptcies and walk-outs (Cao, Y., Dong, Y., Ma, D. and Sun, L. 2021).

Due to their lack of resources, firms cannot allocate their efforts to every possible order of products desired by every customer, and because of that they prioritize the most important customers (Levitas, 2013). It is documented that by doing so, firms can earn large and stable incomes, enhance relationships and coordination, and obtain valuable feedback (Patatoukas, 2012). However, high customer concentration evidently makes a firm being dependent on its most powerful customers (Dhaliwal, Judd, Serfling, & Shaikh, 2015), and this leads to more of the firm's organizational activities such as R&D, marketing and sales, production, and logistics, being shaped by uncertainty (Zhong, W., Ma, Z., Tong W. T., Zhang Y., Xie L., 2021). If unfortunately, these relationships fail, due to the major customer financial distresses or bankruptcy, it might cause a significant decline in a firm's profits because of the loss of future sales, putting at risk the sustainability of its activity. Usually, companies that have high customer concentration tend to have higher days of receivables because it is positively correlated with the major customers' days of payables. This means that as the supplier grows, the major customers' days of payables are also shortened (Hui, Kai Wai, and Liang, Chuchu and Yeung, P. Eric, 2018).

Depending on a few customers or on one major customer can be risky for two main reasons according to Dhaliwal, Judd, Serfling, & Shaikh (2015). First, and already explained, is the

loss of significant sales and, second, is the risk of the firm not receiving the outstanding receivables if the customer goes bankrupt. Moreover, a customer's weak financial situation could imperil the supplier's viability to the other remaining customers, leading in turn to possible future losses in sales. As crucial stakeholders, customers play an important role in companies' operational decisions and profitability (Song & Wang, 2019). Throughout the years, firms have been raising their customer concentration, represented by an increase in relying on major customers. Given that, it's very difficult for a company to seek out alternatives in a short-term period, therefore losing a strong client would be harmful to the firm's revenues (Campello & Gao, 2017). Thus, it is of utmost importance for firms to explore the consequences of customer concentration on their business. (Zhao et al 2021). According to the literature, customer concentration can also have an impact on a firm's innovation, yet the conclusions reached are very inconsistent. While Krolikowski and Yuan (2017) suggest that high customer concentration can have a positive stimulus on a firm's motivation to innovate, Zhou, B., Li, Y., Huang, S., Guo, S., & Xue, S. B. (2019) defend the right opposite, that this relationship has a negative effect. Albeit these authors defend two completely different results, Shen, H., Xia, N., & Zhang, J. (2018) presented an answer where both were acceptable, a U-shaped relationship between customer concentration and innovation.

Among all stakeholders of a company, customers are fundamental, as they are a major source of revenue (Jensen & Meckling, 1976), and important for a firm's profitability, and strategic decisions (Oliveira, M., Kadapakkam, P.-R. & Beyhaghi, M., 2017). Even though, Rehman, U., O., Liu, X., Wu, K. & Li, J. (2022) argue that firms with a highly concentrated customer base might be slower when leveraging, which is negatively interpreted by shareholders. Thus, high customer concentrated companies tend to maintain low leverage to avoid financial distress.

According to the literature, businesses with concentrated customers can be risky for various reasons. First of all, losing a major customer may lead to a significant cash flow loss for the suppliers (Itzkowitz, J., 2013). Secondly, highly concentrated customer firms normally face high financing costs (Cen, L., Dasgupta, S., Elkamhi, R. & Pungaliya, R.S., 2016) which could directly affect the cost of debt borrowing (Cai & Zhu, 2020) and consequently the (SOA) speed of adjustment (Campello & Gao, 2017). However, the speed of leverage adjustment can be faster in firms with a concentrated customer base in some cases, such as, if

the products the company sells are crucial to customer's success (Patatoukas,P.N., 2012; Irvine, P. J., Park, S. S., & Yıldızhan, Ç., 2016)

## **2. Internationalization**

The concept of internationalization can be termed as “the process of increasing involvement in international operations” (Welch, S., L. & Luostarinen, R., 1988), and it can be developed by processes such as importing, exporting, or FDI (Foreign Direct Investment), although slightly limited between SMEs and large firms' exports (Buckley, P. J., 1983). In the SMEs case, exporting is known to be the most common approach to internationalize (Cavusgil, S. T., 1980), mainly because of the low risk and level of engagement (Lu, J. & Beamish, P., 2006). For a firm to pursue this type of strategy it is crucial to have skills like market knowledge and the capacity to absorb information (Oviatt, B. M., & McDougall, P. P., 2005) because this way it can design and develop the proper products for the market (Knight, G. A., Madsen, T. K., & Servais, P., 2004), which makes the relationship between the firm and its client and specific market knowledge promising to internationalization (Keupp, M. M., & Gassmann, O, 2009).

Another key factor for a good internationalization, according Oviatt, B. M., & McDougall, P. P. (1994), are the partners that firms need in order to put in practice their own skills in target markets. Networks are essential to discover new opportunities, finding resources and to mitigate the risk and uncertainty which involves international businesses (Liesch, et al 2002).

The internationalization and the firm size throughout the years have been two subjects broadly debated in literature because usually it seems there is small room for SMEs in this area (Rodriguez, J., 2007). Samiee and Walters (1990) argue that the bigger the company, the bigger the exportations, what could be necessarily true according to Wagner, J. (1995) as larger firms tend to have more financial means and stronger managerial resources, providing them with greater competitive advantages and opportunities to expand business abroad in comparison to competitors. Wagner (1995) also argues that larger firms have economies of scale which makes it easier to enter in the worldwide markets. However, SMEs are important for exportations, even with the different internal and external challenges these companies have compared to larger firms (Rashid, A., & Waqar, M., S., 2017). Many authors found positive outcomes between the size of the firm and exportations, as it is the case of Verwaal and Donkers (2002), while others argued that firm size has slight influence (Wolf, James A.

& Timothy L. Pett, 2000) and others who refuted that the size has a negative effect on exports, like Patibandla, M. (1995).

According to Bonaccorsi, A. (1992), there is a relationship between the two most common indicators used to measure the degree of exportation of a firm (exporter/non-exporter, and export intensity, related to the total sales ratio) and several firm size measures, such as the number of employees, (Majocchi, A., Bacchiocchi, E. and Mayrhofer, U., 2005), the total company sales (Cavusgil, S. T. and Nevin, J. R., 1981) and the company assets (Moellera, Schlingemannb, and Stulz, R. M., 2004).

In accordance with what Hitt, M., Hoskisson, R., and Kim, H. (1997) argued, empirical research as tried to create a bridge between the conditions/instruments that sustain internationalization and the internationalization-performance relationship. Exploring in international markets the capabilities that were developed in the home markets can improve the performance of a firm, but it's still too soon to take conclusions about the impact of internationalization on firms' competitiveness and growth (Freixane, J., & Rialp, J., 2021).

These two last authors presented an argument where they establish a connection between the results of internationalization and its impacts on the development of (incremental/radical) innovative products, also presenting their contribution for the firm's overall sales growth. In this study, they differentiate incremental vs radical product innovations because the nature of both and their implementation is quite dissimilar, as well as their risks and uncertainties (Slater, S. F., Mohr, J. J., & Sengupta, S., 2014). According to Henderson and Clark (1990), incremental means modifications and extensions of already created product designs which results in a higher price and new functional benefits to users. In turns, radical innovation creates new products that offer unprecedented features, cost reductions and can even open the possibility of a new business opportunity (Slater et all, 2014). But why is innovation important for internationalization? Cassiman, B., Golovko, E. (2011) and Pla-Barber, J. and Alegre, J. (2007) argue exactly that it's through innovation that firms can create competitive advantages. This provides them a shield to overtake possible challenges and international barriers. More authors, like Waklin, K. (1998) and Altomonte, C. et all (2014) defend that innovation opens doors to internationalization but in many cases only for large firms because of the better advantages and broader product portfolios they can offer (Acs, Z. J. and Audretsch, D. B., 1978).

Another key insight for higher exportations is the firm's productivity being directly connected to lead times. Empirical studies show that companies' plants oriented for exportations are usually more efficient than for domestic markets (Aw, Bee-Yan, & Hwang, R., A., 1995). Reis, J. and Forte, R. (2014) argued that on Portuguese industrial firms, for example, higher productivity is related to a higher percentage of sales exported.

Why are SMEs better in exportations than others in the same industry? Every SME has the objective to grow their sales on international markets (Yamamoto, K. & Igusa, K. 1996) and the literature says that a crucial factor which influences a firm's performance in exports is the management team's international experience (Bilkey (1978); Reuber, A. R., & Fischer, E. (1997). As already explained in this chapter, larger firms are seen as having better chances in international markets because of their resources and experience (Cavusgil, S. Tamer & John R. Nevin, 1981). However, this has been questioned by Calof, Jonathan L. (1994), where the author argues that firm size might not be a good forecaster of a firm's performance in international markets.

Some of the skills used to predict the success or failure in exporting are the experience the managers had in foreign travels, the number of languages spoken by the managers, and if they or he/she was born, has lived, or worked overseas (Miesenbock, Kurt J. 1988). Other authors proposed it in two different ways, such as the experience of the top management team as a whole and not only of the top manager in the firm, and by expressing the relation of the managers' experience with the specific internationalization context (Finkelstein, Sydney & Donald C. Hambrick., 1990). Even though much of the literature is based on larger firms, Chandler, Gaylen N. & Stephen Hanks (1994) and Mintzberg (1988) argued that the relation of the managers experience with the firm's performance is normally much more clear in SMEs because they reflect further the dominant role of the founding team. Moreover, Oviatt and McDougall (1994) stated firms that were founded by a team of individuals with past international experience tend to go international since its early beginnings, which goes in accordance with what Sapienza, Autio, George, and Zahra (2006) proposed in their article because managers' experience has indeed a great influence on a firm's exportations engagement, also enabling the firm to reduce time and costs associated with this process.

There are diverse ways to promote a company, and trade fairs are one of the vast instruments. They play a major marketing role in Europe (Weinrauch, D.J., 1984) and are each time more specialized and organized to promote a specific industry to a precise target audience in an

exceptionally efficient way (Bonoma, T.V., 1983). This is predominantly significant in a foreign context where it is more difficult to reach to potential customers.

According to Motwani, Jaideep, R. and Gillian (1992) trade fairs are useful to cultivate global orientation, increase market knowledge and develop relationships with possible partners. More authors with the same opinion, like Wilkinson, T., J. and Brouthers, L.E. (2000) defend that trade fairs have a positive impact on exports.

### **3. Business's implication and reaction to the COVID-19 crisis**

Nowadays, the evolution of the globalization of the economy has been creating opportunities and challenges for many firms. SMEs (Small and Medium-sized Enterprises) within this growing environment account more and more for a high percentage of organizations worldwide and significantly subsidize the economic development around the world (Muller, P. et al 2017), meaning they are one of the engines for the economic growth of a country (Bruque, S., & Moyano, J., 2007). When talking about the manufacturing sector, SMEs account for 58% of employment and 42% of added value (European Commission 2017). SMEs have extremely flexible operations and can bring to the market product innovations, with the help of technology, responding to difficult challenges and having a positive impact on the economies of several countries (Pisani, N., Caldart, A., & Hopma, J., 2017). Many of these emerging companies don't have, for example, enough financial funds, time, workforce, know-how, or even sustainable organizational structures (Ciliberti, De Haan, De Groot, & Pontrandolfo, 2011) and, consequently, when placed in a competitive business environment, the lack of resources necessary to expand their operations, place them at a disadvantage (Azadegan, Patel, & Parida, 2013). Conversely, their "small-medium" size makes them flexible and capable of adjustment (Genc, Dayan, & Genc, 2019), providing them the necessary space to have innovative ideas in certain situations on a business environment despite the shortage on resources (Rosenbusch, Brinckmann, & Bausch, 2011). In fact, there is a competitive environment between SMEs in Europe because of these companies' capability to be innovative, nevertheless, they are very susceptible to external factors what affects their performance (European Commission 2019). COVID-19 will put innovation to the test.

A crisis, like the COVID-19 pandemic, can have negative effects on businesses if not well managed (Coombs, W. T., 2007) and normally affects more SMEs than large firms because of the scarcity of resources (Laufs, K., & Schwens, C., 2014). As already explained, luckily,

their size allows them to be more flexible and adaptable, so characteristics, such as a relatively small organizational hierarchy, can be very beneficial during this pandemic which is unique in global research, economic impact, and political influence (Ritter & Pedersen, 2020). However, SMEs take time to return to a stable environment (Juergensen, J., Guimón, J. & Narula, R., 2020). During the financial crisis in 2008, the world saw how vulnerable firms are when confronted with these emergencies, especially in the case of manufacturing SMEs (Wymenga et al. 2011). For example, in Germany, 50% of SMEs expected a damaging effect from the pandemic (DIHK 2020) and, in Italy, more than 70% of SMEs reported that COVID-19 had significantly been harmful to their activity (CAN 2020). The pandemic has had serious implications for firms, both in terms of supply and demand. Most of the firms affected have faced logistical complications and a demand decrease because of lockdown periods, which, in turn, led to drops in consumer confidence (Juergensen, J., Guimón, J. & Narula, R., 2020).

According to Reinhard & Rogoff (2010), a macroeconomic crisis can be characterized as more frequent than normally believed. In this sense, SMEs may see a COVID-19 as a threat and an opportunity at the same time, depending on their skills to strategically react (Kraus et al., 2020). However, countries are dealing in their own way with the pandemic and the economy. This directly influences businesses' choices (Born et al., 2021). Thus, researchers have been trying to provide the world with answers on how businesses should react and what type of strategies should they use to overcome this situation (Giones et al., 2020), as there are many organizations in need of a business model adaptation (Ritter & Pedersen, 2020c).

Klyver, K. & Nielsen, L. S. (2021) presented a study where they try to stipulate some crisis management strategies to be used during the COVID-19 pandemic with the help of empirical evidence (they combine 2019 and 2020 data from Danish firms, and theories from literature like Davidsson et al., 2020 and Wenzel et al., 2020). According to Chesbrough, H. (2020), one of the strategies that businesses should start immediately to put into practice in order to overcome faster the problems the pandemic brought is sharing the information. According to the author, sharing data and information will speed up the innovation process, allowing businesses to take advantage of the knowledge of others similarly to in global public health services.

Nowadays, we live in a world that can be described by the acronym VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), presented for the first time by Bennis, Warren G,

and Burt Nanus (1985). Therefore, business communication is key to overcoming this reality, since sharing feedback between organizations can be crucial to realigning processes (Fuller et al. 2022). It helps to adapt organizational cultures and business perceptions at all levels, such as strategy, leadership, teams, and individuals (Keyton, J., 2017). Further, efficient business communication, in a world where VUCA predominates, promotes respect and humility among organizations (Van Quaquebeke, N., & Felps, W., 2018).

According to empirical research, lockdowns forced SMEs to stop their business momentarily, and consequently, almost 60% of these organizations worldwide were pushed to use their total cash reserves (Cowling, Brown, & Rocha, 2020). Directly or not, micro-organizations and SMEs are always harmed in times of crisis because the international supply chain is interrupted (Prasad, S. et al. 2015). Kumar et al. (2020) argued that the pandemic has affected businesses in such a way that inventory management and manufacturing processes were harmed and this led to a disruption in supply chains throughout the world and operational breakdowns. Others showed that COVID-19 significantly affected businesses' sales and profits (Shen et al. 2020).

Moreover, a sustainable activity is key for firms. According to the literature, a crucial factor for maintaining a competitive environment is sustainable growth (Olson, G. T. & M. S. Pagano, 2005). Following Higgins's (1977) line of thought, sustainable growth allows a firm to expand its sales using merely its own assets, hence it is an influential feature for the company's perseverance and growth. It is believed that companies with high profits tend to have the capital needed to foster sustainable growth. For instance, in Indian manufacturing companies, Mukherjee and Sen (2018) established a positive connection between profitability, leverage, liquidity and sustainable growth.

Due to the unpredictability of consumer confidence, firms are considering adapting their customer relationship management to the circumstances (Yuen et al. 2020). According to the empirical research presented by Chen, X. et al. (2021), COVID-19 has generated an atmosphere of uncertainty and reduced firms' profits, which in turn, can be mirrored by their sustainable growth. As a possible answer to mitigating these consequences, the authors suggested that customer concentration could decrease moderately the outcomes and promote sustainable growth for firms, as the firm's customer base is directly connected to the supply chain and firms' operational processes (Li, Y. & C. W. Zobel, 2020).



## **Teaching Note**

### **Synopsis**

Carlos Almeida (CEO), Manuela Veríssimo, and José Carlos Silva (CFO) founded Me & You Innovate, a metalworking company, in 2012. This industry is extremely competitive, the type of machinery used is very expensive because of the technology, and the workers who operate them need to have the required skills. Those are important entry barriers for this industry.

Me & You's business was growing at a steady rate with a client that accounted for around 50% of the sales, Vision Box SA. Till the moment of the case, M&Y hadn't had any kind of problems with them. Unfortunately, the COVID-19 pandemic caused some turbulence for the business. This major client had to suspend all its activity and all its orders from its suppliers. Me & You which had previously done a big investment for this order and even had some of the goods for Vision-Box already finished and ready to be delivered, was surprised by this event. The losses the company would incur would be high and the future of its activity was uncertain.

The situation demanded strategic responses to what was coming because it was going to be a huge hit for the company since this client was its main source of revenue. The first move was to use most of the inventory kept for the canceled order and build alcohol dispensers. So, they took advantage of the stock and managed to "control" the situation for the moment before choosing the big decision that was the response on "How are we going to keep a sustainable growth if we just lost our main client, around 50% of our revenues?"

One of the alternatives under consideration was the idea of exploiting of further exploring the internationalization possibilities. The company had opened that door in the previous years but it was never its core business. M&Y had produced mainly for the domestic market. The company had to decide whether to invest and go with this strategy or if it should focus on a different objective.

## **Learning Objectives**

This case may be used in strategic management classes as an introductory tool for instructors looking to explore topics like customer concentration, internationalization, and companies' sustainable growth. The intended learning objectives after discussing the case are:

- Recognizing what kind of challenges may emerge from a crisis impacting major clients and how can they affect small medium-sized enterprises
- To evaluate the strategic business measures applied
- To understand the idea of sustainable growth as well as its importance for the continuity of a business

## **Assignment questions**

- In your opinion, how M&Y differentiates itself among competitors? What are the key success factors?
- How did customer concentration affect M&Y's business?
- Imagine you are part of M&Y's management: what alternative would you recommend?

## **Class Plan**

1. How do you evaluate the strategy of Me & You up to the Covid crisis?
2. What are the key success factors in the industry where the company operates?
3. What are the major challenges that Me & You has to face?
4. What is your evaluation of how did the company react to Covid?
5. What alternatives are open for the company?
6. What is your assessment of the internationalization route under consideration by the management of the company?
7. What are your recommendations for the management of Me & You?

## Analysis

### 1. How do you evaluate the strategy of Me&You up to the COVID crisis?

From the start, M&Y recognized that to retain partners/clients in this industry it was central to deliver a service at the best price, in the shortest delivery time possible. However, the high quality of the final product was the key factor for companies to differentiate themselves. Following this line of thought, the firm tried to develop close relationships with reliable raw material suppliers, searched to keep its technological equipment updated, and progressively invested in renewing its plant and enlarging the team. As we can take from the case, M&Y used specific technology in every step of the production process, such as software programs like Solidworks, for the designing of prototypes and state-of-the-art equipment like laser cutting machines for the manufacturing. This meant the firm always needed to be in a constant search for new technologies which could provide competitive advantages.

For manufacturing companies, holding inventory normally means incurring high costs since they need to keep in stock assets such as raw materials, tools, goods still in progress, and finished goods. Thus, it was extremely important that the company understood all the customers' needs and adapted its inventory management strategy. On one hand, we have the make-to-stock practice and on the other hand, the make-to-order process. This latter strategy is applied when the product only starts being produced after the order is placed. To keep analyzing this question, we must pay close attention to the first and third chapters of the case (First steps & The COVID-19 crisis). In these chapters, we understand that M&Y usually followed a make-to-order production plan, taking advantage of benefits like:

- Letting the customers customize their orders, increasing the client's satisfaction with the service;
- Reducing waste, particularly the stock of unsold goods. When firms keep many unsold items in stock they are wasting the materials used, the money invested, and the labor put into it to produce them. M&Y only used to produce large batches for Vision Box when it wanted to surprise the customer with shorter delivery times;
- Reducing inefficiency by adjusting the production planning to the demand. This way firms can guarantee there are no unnecessary steps or operations during the production process, directing all the efforts towards the requirements of the customers;

However, while following the make-to-order strategy, M&Y may occasionally feel negative effects, such as irregular demand forecasting. With such a policy, a firm may experience difficulties while planning the production because it must worry about issues such as holding excessive safety stocks or a possible stockout, making it very challenging to forecast inventory levels. Wrong forecasting of the demand can lead to increases in delivery times since the product starts being produced only after receiving the order and the raw materials are not immediately available to start producing it. Vision Box was a reliable client and usually repeated the same orders. The make-to-order strategy was then the most suitable strategy to follow since it was easy to forecast the demand and customize the items always in the same way.

Me & You opened their international doors in 2015 when it participated in a metalworking trade fair in Paris and started developing projects for Germany, Austria, and Holland. This was great for the visibility and expansion of its business. We can observe that between 2016 and 2019, the firm increased its sales by 51%. However, we know that selling abroad was not M&Y's core business, representing a small percentage of total sales between those years. This is a key moment worth mentioning because Vision-Box accounted for around 50% of revenues. They had here the opportunity to expand their customer base with this "small" internationalization step and to mitigate the risks of having a high customer concentration. Eventually, revenues and cash flows were going to be divided by more clients leaving the company less vulnerable. Despite promoting the development of close relationships between customers/clients and enabling premium customer service, having just a few major customers puts firms at serious risks.

Relying on one or few customers makes the company extremely dependent. The larger the customer is, the higher the dependence is, and losing it would seriously damage the company's revenues. Having a customer base made up of a small number of clients may turn even more difficult situations such as asking banks for loans with advantageous interest rates. It is even harder for companies with a highly concentrated customer base to attract capital and investment because investors are aware of the risks at stake. Moreover, having a high customer concentration, can reduce the bargaining position of the firm. If the clients know that the supplier is dependent on them, they may ask for better contract terms or drive the prices down.

Overall, since M&Y was dealing with a national customer with whom it had a strong relationship with since the beginning, it made sense that it had followed a make-to-order strategy. On the other hand, M&Y didn't consider all the possible risks of having a concentrated source of revenue. Half of their sales came from Vision Box, which left them highly dependent and seriously vulnerable if something happened to this single client.

## **2. What are the key success factors in the industry where the company operates?**

The goal of metalworking industry is to transform raw materials into different types of metallic objects, used in diverse sectors such as automotive, military, and energy, for instance. This industry is well-known for its highly competitive environment, and therefore companies which operate in it need to gather competitive advantages to increase their longevity, sustainability, and success in this field.

Among the crucial factors to be successful in this industry is the cost position. It is extremely important for a metalworking company to analyze where it spends all its money on the production process. This starts right when companies are sourcing raw materials. Having access to quality raw materials at low cost will enable companies to negotiate better margins when selling their products, reduce the products that become scrap and achieve competitive advantage. Nonetheless, it is not enough to find materials at low cost: its proximity to the company is important as well. Although steel is a commodity that is normally traded internationally, finding close suppliers is a factor that is particularly significant to cut back on transportation costs.

Firms need to enrich their relationship with the right suppliers so that they can structure a reliable and solid supply chain. Customers usually search for partners who can provide a quality service at the best price and best delivery time possible, and this is only possible when firms reach an advantageous cost position and design a successful supply chain. The quality of the product can be excellent, but customers won't order from a company that do not comply with the stipulated delivery times. Thus, it is fundamental that suppliers comply with their part and deliver the raw materials on time so that the company can keep the production course flowing.

Another critical aspect to prosper in this industry is the structure of the customer base. As we already know, M&Y chose to sell mostly to one client what conditioned its source of revenue. This turned out to be a nightmare to the company because unfortunately this client

stopped ordering and put M&Y's business sustainability at stake. A broad customer base would help to mitigate sales volatility. In case something happened to a major customer, as it was the case for M&Y, it would be easier to control the situation since revenues would come from different sources, meaning the company wouldn't be so exposed.

The management and the workforce experience, and the technological equipment used are also two important success factors that go hand in hand in this business. The metalworking industry is characterized by having processes with a higher level of complexity which demand state-of-the-art technology; thus, IT is a fundamental piece in this industry. It is vital for businesses development, expansion of operations but mainly to reach competitive advantages. Therefore, retaining staff with the right skills for the job is extremely important because employees must know how to operate the state-of-the-art machinery and the software. Otherwise, they will struggle with these complex systems, affecting the global productivity of the company and customer satisfaction.

Porter's five forces analysis for the Metalworking industry:

#### Threats of New Entry

- New entrants can bring innovation to the market, leading to new products that generate value added, lower pricing strategies and costs reduction. This means companies can lose their competitive advantages if they do not set barriers. Managers should try to reach economies of scale to reduce costs while investing in new innovative equipment and employee's development.

#### Buyer Power

- Buyers always want the best quality at the smallest price possible, making difficult for companies to generate profitability in the long run. This means the smaller the customer base the higher the buyer's power because they know they have the strength to negotiate better contract terms. Therefore, the company should try to structure a large customer base which will help with the sales volatility and will weaken the buyer's power.

## Competitive rivalry

- The metalworking industry is extremely competitive, meaning the prices practiced by companies tend to be also very competitive which sometimes is translated by being low, affecting the overall long-term industry cost-effectiveness. Therefore, it is extremely important for a company operating in this sector to try to differentiate the among competition.

## Threat of substitution

- In this industry there is only high threat of substitution if other metalworking services offer products which have more value added. Managers should try to set the company focus to service oriented and understand the needs of their clients.

## Supplier Power

- When suppliers have high bargaining power over a metalworking company, they can have great influence on its margins by selling raw materials at the highest prices they can, affecting the company's future profitability and cost position. Thus, it's extremely important metalworking companies build an efficient supply chain with diverse reliable suppliers.

Overall, the metalworking industry is appealing for incumbent companies. Conversely, for new entrants is not so attractive because firms compete on quality and value added. This is only achievable if the new firms establish from the beginning high-quality production methods and promote strong relationships with reliable suppliers. Additionally, clients tend to be loyal in this industry, meaning it would be extremely difficult for new entrants to gain acknowledgement and to properly structure a solid customer base. Accordingly, the attractiveness level in this market for new players is low.

### **3. What are the major challenges that Me & You has to face?**

By relying heavily on one key customer (around 50% of sales in M&Y's case), the company was risking encumbering its business in case something happened to it. Unfortunately, with the COVID-19 pandemic, Vision Box suspended its activity and canceled the pending order with M&Y. As it was expected, revenue and cash flow would suffer damages and generate a

VUCA environment (Volatility, Uncertainty, Complexity, and Ambiguity) for the company. Even more so that in this situation M&Y most probably would be unable to pay its operating costs and it would be seriously difficult to keep its staff and suppliers. The firm had to think of a strong and sustainable strategy to level up its revenues because the continuity of operations was at stake and the risk of insolvency would increase with time.

The high customer concentration makes the company very oriented towards its major clients, investing almost all its efforts in trying to secure its satisfaction affecting the company's priorities and carelessly disregard other clients' needs, left for second place. In addition, when putting its major clients' needs in first place a firm normally tends to fail in acquiring new customers and diversify its revenue sources. With the loss of the revenues coming from Vision Box, M&Y's business will have difficulties to capture new investment or to ask banks and other lenders for a loan. Furthermore, and to worsen the situation, Vision Box had a debt of over 400.000€ in past orders.

So, the company had made a huge investment for this order, had already produced some of the goods for stock, and still had outstanding receivables. On the short-term, M&Y must deal with the surplus inventory problem and with the investment that was worth more than 100.000€. On the long-term, the company needs to recover from the loss of more than half of its revenues and find a strategy to assure the sustainability of the business.

The challenge will be to understand how the company can make sure that in the near future something similar doesn't happen. Enlarging its customer base can be achieved by strategies such as internationalization, but, unfortunately, this will have its own challenges. There are huge benefits from internationalization such as diversifying the source of revenue. However, avoiding the concentration risk may not be enough. Expanding the customer base may not assure profits and protect the company against losses, but it will increase the probability of the company to reach a steady cash flow over time.

#### **4. What is your evaluation of how did the company react to Covid?**

The pandemic left many businesses without knowing what to do because nothing similar has happened in the recent years. This scenario of uncertainty meant companies would have to come up with new businesses models and strategies prepared to respond to the new demand and consumer behavior. It is crucial for companies to adopt strategies like the creation of a crisis management team, for instance. M&Y didn't have one. During times of crisis, such as



pandemics, task forces can make the difference between a business going bankrupt or surviving, since they immediately start working on the solution. The firm could have previously structured a team with some of the key executives to prepare the organization to respond assertively to hypothetical disasters. Furthermore, M&Y could have promoted an effective and timely supply chain arrangement with its primary client so that it could protect itself, like a long-term contract or the extension of the contract.

As a first response to the pandemic, M&Y decided to anticipate the two-week vacation each employee was entitled to. This might have given the time the organization needed to reorganize its annual production and adapt the schedule to the future consumer demand. In this situation it is difficult to say what would be the best strategy to follow since the world never experienced a similar health crisis. Additionally, anticipating the vacations allowed the company to prepare itself and have the necessary staff ready to work if the pandemic caused more pressure to the business.

Many firms had to adapt to the circumstances COVID-19 brought upon the world and to discover new opportunities in this time of crisis, which required, in the first place, innovation and great creativity. COVID-19 would have a stronger negative impact if M&Y did not have immediately started thinking in insightful ways to reutilize the unsold goods already in stock and the raw materials for the Vision-Box order. We know, from the case, that the requirements imposed by the health authorities for businesses to continue operating during this time of crisis required many companies to invest in prevention equipment. Given this reality and given the fact that the company had available all the qualified staff, technology and materials needed, M&Y started developing this type of equipment, using the surplus resources and inventory. While contributing to the health of the society, M&Y managed to use the resources already invested and the products in stock for the Vision Box order, mitigating some of the negative consequences brought by the suspension of its major client activity. The losses would be huge in the firm's revenues and cash flow if the company did not react promptly and come up with a temporary approach that could provide enough time to reorganize and hopefully maintain sufficient capital to continue operating and secure jobs. This short-term response at that time of need may have been what the company needed to keep its activity going and have the proper time to think and structure a sustainable and profitable strategy.

When crisis like this happen it is critical for a company to immediately start thinking on a long-term response in order to secure a sustainable activity. M&Y, on the contrary, focused primarily on what to do with the investment already done instead of thinking in different response possibilities. Despite the future of the pandemic not being clear at that time, the most probable scenario was that it would be with us for the long term. This called for strategies that managed both the short-term uncertainty and the long-term risks of the pandemic. M&Y lacked ideas to respond to the crisis on a long-term perspective since it only focused on a strategy to survive to the next “months”.

### **5. What alternatives are open to the company?**

With the emerging pandemic, the company received an unexpected phone call from its top customer that would jeopardize its operations unless the managers came up with a solution to counterbalance and continue to run a sustainable business. M&Y’s staff started coming up with ideas and four of them were chosen as the best ones.

The first alternative, directly from the head of the production department, Paulo Santos, was to expand the company’s portfolio and start producing metalworking machines used in the metalworking industry, for example. At a first glance, expanding the company’s portfolio seemed a good idea, since the reasons to add new products to a company’s portfolio are vast. It could be the answer to scaling up sales and changing the company's direction in a whole different way. Developing more product lines would allow M&Y to grow its customer base by attracting and retaining new buyers, spreading the risks and costs by operating in multiple product areas, and promoting economies of scale by having intensive production processes that could lead to an increase in worker’s productivity and to lower unit costs. However, investing in new product lines also means investing in more space, people, and inventory on many occasions. By investing the money and resources in this expansion, M&Y would have less available capital for other business needs. This means that a careful study would have to be done to weigh the return on investment of each product before investing the necessary. M&Y would also have to incur debt, and as long as the sales were consistent the financial obligations would be manageable. However, an unforeseen recession in industry conditions could be enough to lead the business to bankruptcy. Another risk is that by not having the suitable people and resources to cover the new expansion areas, getting in too many markets could lead to a misfocus of the company up to a point where it would not perform well in any of the areas.

The second alternative was continuing to invest in health and safety equipment products. Bruno Dias, the head of the engineering and planning department, believed the company should keep producing and innovating in this field. However, for the CFO, this was a short-term type of business and was not a viable option because there were already many companies in the market with much more capabilities. Even though the company, as an SME, had flexible operations and could bring into the market product innovations, as they were already doing, it didn't have enough financial funds, time, workforce, or even a solid organizational structure as the companies specialized in this market had.

Instead, the CFO proposed a third alternative, which was to redirect all the company's efforts to the domestic market. This would be the most solid idea mainly because big investments weren't needed and the company was already strongly recognized in this field in Portugal. By investing in the domestic market, M&Y was excluding challenges such as language barriers, strict fulfillment deadlines, and high shipping costs. The company could also more easily forecast and understand the market, be more cautious regarding economic downturns and promote positive press since all the products are "made in Portugal". However, there was a huge problem, the customer base would continue to be limited and concentrated, increasing the risks of an unexpected economic turnover. Another disadvantage was that M&Y would not know the full potential of its product until introducing it in global markets.

Finally, the fourth alternative was investing in M&Y's exports. Manuela, M&Y's sales director, believed this was the right opportunity to explore foreign markets. This would give the company the opportunity to access new markets resulting in faster business growth and a broader customer base, allowing the firm to better manage the risk and avoid being dependent on just one source of revenue. This alternative would also give M&Y more visibility and increase competitiveness. Nevertheless, the firm would face big challenges when expanding abroad. Each country's government has its different regulations, therefore to comply with all the legal points, M&Y may need to hire HR international experts, local tax accountants, or even lawyers. Entering new markets can be rather complex since the company would have also to pay close attention to business practices and cultural barriers that tend to be different depending on the country. Another big challenge would be the increase in shipping and logistical costs, as well as the need for incurring debt.

For any alternative two scenarios should be considered: a fast recovery of the market or a long downturn. If the first scenario happens, Vision-Box hopefully would start its activity

again and M&Y would be able to recover the business from its major client. The company would cover the fixed costs through domestic operations, allowing export profits to grow, which in turn would allow the business to develop faster. Even if the second scenario played out, the company by opening its business to foreign markets would gain more visibility and might retain more clients and grow sales to compensate for the losses from the Vision-Box deal. Either way, M&Y would mitigate the risk of falling into a concentrated customer base again, avoiding the same pitfall in case of a future crisis.

**6. What is your assessment of the internationalization route under consideration by the management of the company?**

Internationalization is progressively becoming an essential competitive tool. The competitive atmosphere within an industry requires firms to differentiate themselves and to find new markets to grow, so companies more and more try to do it by expanding abroad. Technology and logistics tools have narrowed distance and time, facilitating trades between international markets. In this sense, competition is always increasing, creating challenges for a business to survive by selling only in the domestic market. This is even worse when a company is dependent on one big client.

Betting on internationalization might be the answer the firm needs. First of all, this strategy would open new opportunities allowing the company to take advantage of demand around the world, increasing sales and reducing vulnerability. Selling abroad would make the company no longer reliant on sales from the domestic market, hence, the impact of a similar future crisis on Me & You's operations would not be as big. The company would be able to build a broader customer base, avoiding the high concentration risk.

M&Y already opened up to international markets in the past when it started to export to Germany, Austria and Holland, providing the employees some experience in this field. An SME such as M&Y, might lack the expertise needed to go through an internationalization process compared to larger firms. Human resources and managerial capabilities are key factors when these companies want to internationalize. Me & You managers already had previous experience in working with international markets, thus they had the managerial capabilities required. Moreover, the experience M&Y gains internationally will keep the company competitive both in the domestic and international markets.

There may exist some challenges the company should consider before making any decision. Factors like the competition should be considered since it is very difficult to keep track of competitors in export markets. Me & You should also consider the extra costs it will be incurring. Although having all the resources needed to support its implementation, this strategy is very fragile, financially speaking. Building new international markets not only takes time but can also be very costly in terms of marketing and packaging, where, for instance, they need to meet safety and security requirements according to the export country. If the managers decide to proceed with this strategy, the company would need to ask for a loan in order to support all the extra costs.

Overall, the internationalization strategy seems to be the suitable answer for M&Y's insecurities. Even though, the company should do a thorough evaluation too check if the positive outcomes overrun the negative outcomes. Unfortunately, because of all the uncertainty around this pandemic, it's very difficult for the managers to make a conscious decision since they do not have all the information that should be considered to evaluate the situation, in the internationalization decision making process.

#### **7. What are your recommendations for the management of Me & You?**

M&Y stands in a very challenging position. The firm has to decide which alternative should follow in order to keep its business running, however, the situation it's delicate since the company had a big revenue loss when its major customer stopped its activity and canceled one big order.

Based on the firm's situation, my first recommendation would be to continue to serve and follow closely the domestic market as the company is already very well known in the national industry. M&Y doesn't need big investments and has the structure to respond well to domestic demand maintaining a quality service. Forecasting and understanding the market shouldn't be a problem for them. Another advantage is that the market can recover fast with the Vision-Box business, recovering the sales. However, the main reason for the firm's distress situation is the high customer concentration which left them vulnerable to the potential risks of an unexpected economic turnover.

Following the same line of thought, my second recommendation would be to focus on expanding their business abroad, an alternative that the three founders had previously raised. It's the fastest way to enter new markets, gain more visibility and distribute revenues across

different clients so that the company can build a vast customer base. On one hand, M&Y already started that project in three different countries, and the management has the necessary experience. The company plant and equipment are also prepared to expand the business. On the other hand, we don't know if the capital the company has at the moment is enough to implement it, so asking for a loan is a strong possibility.

In the long-term, strategy-wise, I would recommend to M&Y management to seek opportunities not only in the three European countries they started to export to but also in other markets, in order to try to reach the maximum possible number of clients. As we observed in the case, the principal reason for M&Y's crash was a highly concentrated customer base. Around 50% of their revenues came from one single client, which left them exposed. Having a diversified portfolio of customers reduces the risks from economic downturns, provides financial security and stability, and also gives the company the opportunity to work on different projects and with different types of people.

## **Conclusion**

Me & You Innovate, a company dedicated to bringing innovative solutions to the metalworking sector, had a small portfolio of customers, where one major buyer stood out with around 50% of the company's sales. This highly concentrated customer base turned out to be a huge problem when a sudden crisis emerged. Since the company wasn't expecting this, and there wasn't a diversified source of revenue, the pandemic caught the firm by surprise when its biggest client stopped its activity and the income was at stake. Therefore, the company had to raise alternatives so that it could continue to run a sustainable business. Before moving into action all the options should be revised and well-thought-out.

There are important risks of having a highly concentrated customer base that should be considered. This Thesis exposed how a firm should think from a long-term perspective so that in the future it can avoid being vulnerable to unpredictable circumstances like this one. Of course, no company was expecting COVID-19 to hit the market as it did, but in spite of that, a high customer concentration leaves the firm extremely dependent on a group of customers, and it is enough for one of them to cease activity to compromise a sustainable business.

Moreover, this dissertation also highlighted the importance and relevance of expanding a business abroad to a company. It presented the strategy as a strong way to reach new global customers, gain a competitive advantage and establish new revenue streams. Since the company already was doing well in the domestic market and already had opened those doors, it should have started thinking sooner about identifying new international opportunities.

Developing this thesis allowed me to understand the importance of having a customer base and its impact on a firm's performance. I got to learn more about the metalworking industry and understand its challenges and opportunities.

If I had more time to work on this dissertation, I would have liked to further explore the challenges related to keeping the technology used by this industry updated.

In the future, I will keep an interest in following how the situation develops at Me & You and if the choices of the company to face this crisis are enough to straighten it out.

## Case Exhibits

**Exhibit 1:** Small parts developed by M&Y





**Exhibit 2: Projects designed by Me & You Innovate**



Radars installed on highways



Transformer stations for Siemens

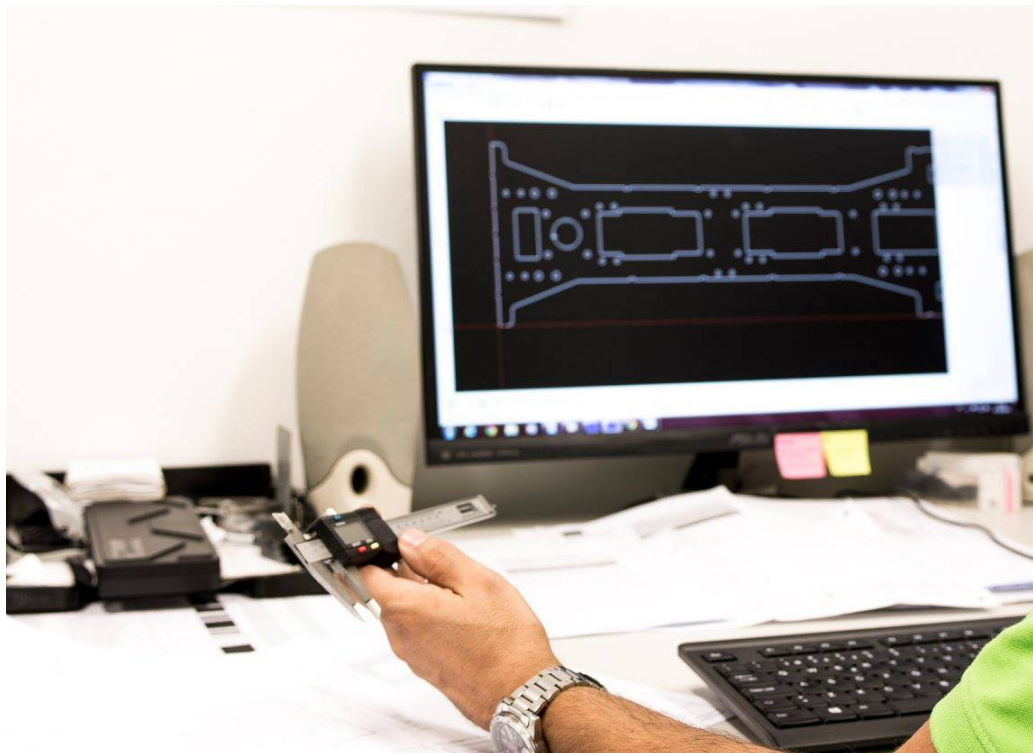


Machines for automatic payments at tolls



360S Simulator for Benfica

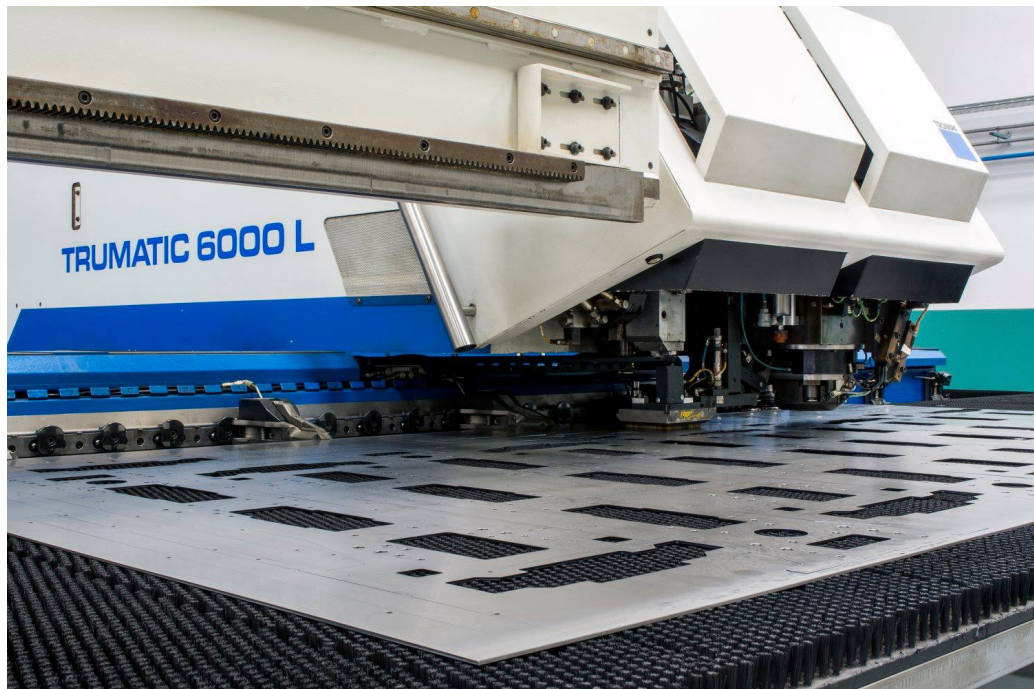
**Exhibit 3:** Product designing with Solidworks



**Exhibit 4:** State-of-the-art equipment



CNC bending machine



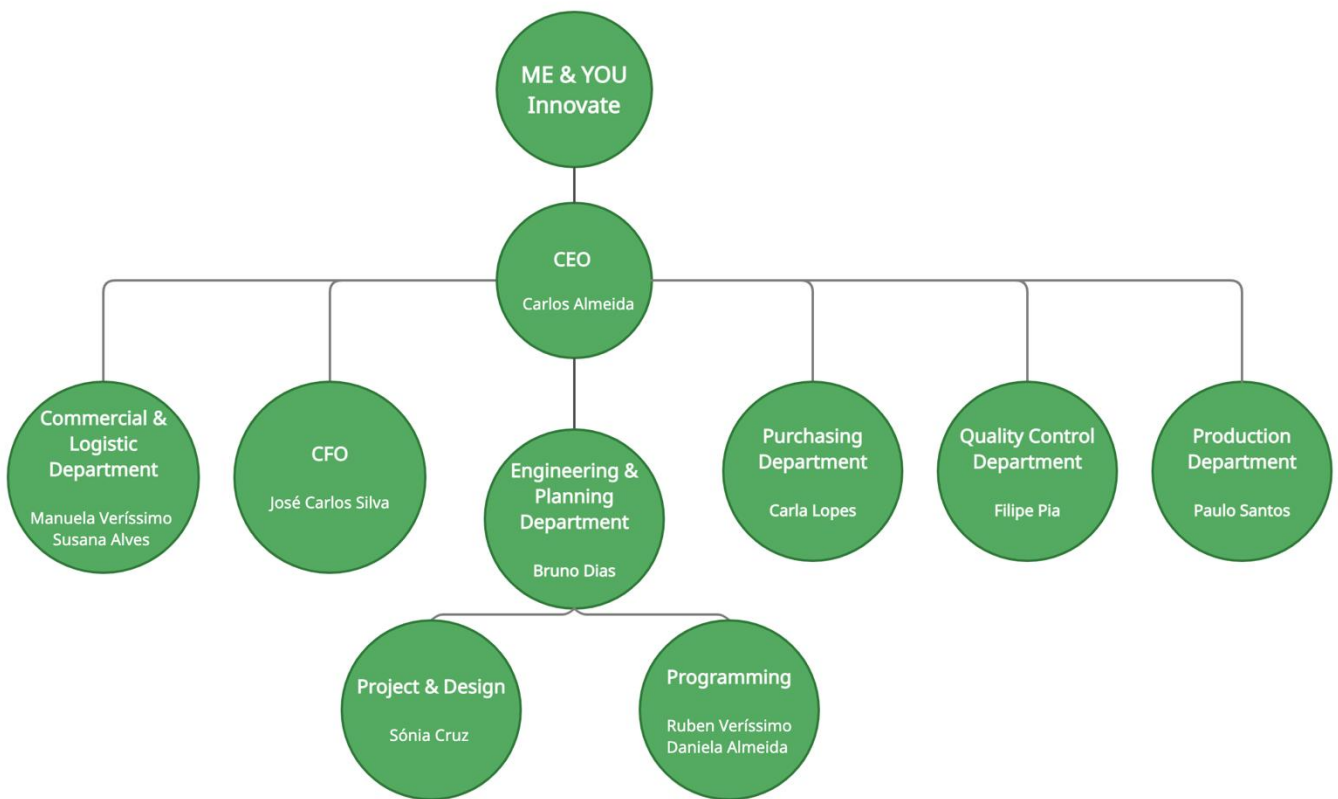
Laser-cutting machine

**Exhibit 5:** National and international billing

Year	National market		External market		Total
	Value	%	Value	%	
2013	424.862,61 €	94,98%	22.440,80 €	5,02%	447.303,41 €
2014	892.015,44 €	95,95%	37.662,48 €	4,05%	929.677,92 €
2015	973.901,48 €	94,74%	54.047,31 €	5,26%	1.027.948,79 €
2016	1.326.851,86 €	93,72%	88.856,62 €	6,28%	1.415.708,48 €
2017	2.102.255,28 €	95,14%	107.278,04 €	4,86%	2.209.533,32 €
2018	1.581.036,78 €	82,57%	333.760,87 €	17,43%	1.914.797,65 €
2019	1.685.975,29 €	78,45%	463.101,52 €	21,55%	2.149.076,81 €

Source: Company Information

**Exhibit 6:** Organizational chart



Source: Company Information

**Exhibit 7: M&Y's Seixal plant**



**Exhibit 8:** VISION-BOX group weight on M&Y's revenues

	Total Sales	Vision-Box Sales	% Sales Vision-Box
2013	447 303,41 €	0,00 €	0%
2014	929 677,92 €	185935,58 €	20%
2015	1 027 948,79 €	553 311,61 €	53,83%
2016	1 415 708,48 €	753 966,78 €	53,26%
2017	2 209 533,32 €	662 859,99 €	30%
2018	1 914 797,65 €	421255,48 €	22%
2019	2 149 076,81 €	1 074 538,4 €	50%

Source: Company Information

**Exhibit 9: Alcohol dispensers**





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