



# CGI: Reaching out for new sources of revenue in a B2B market context

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## ABSTRACT

The case study “CGI: Reaching out for New Sources of Revenue in a B2B Market Context” aims to expose a different side of Marketing – Relational Marketing or Reputation Management – in a Business to Business (B2B) market context.

Since it is an area of marketing sometimes overlooked in the classrooms around the world, this case study intends to be an introduction tool for students to the marketing management rationales in B2B services companies. The case study also introduces the outsourcing matters of Offshore and Nearshore, as a way to clarify their relevance and implications in the corporate world.

Finally, it intends to be a practical mean for students to develop their critical thinking, as well as information processing, with imperfect and scattered data. Given the unfavorable conditions of the Portuguese market presented in the case, it allows students to grasp the possible constraints a company may face, and what alternatives exist to overcome them.

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## CASE STUDY

### **CGI: Reaching out for new sources of revenue in a B2B market context**

#### **Introduction – 17<sup>th</sup> of December 2012**

It's the 17<sup>th</sup> of December 2012, and José Carlos Gonçalves has just wrapped up another meeting regarding the corporate acquisition that altered the company's "business-as-usual". Two months ago Logica had been acquired by the CGI Group and their biggest contract – with Energias de Portugal (EDP) – was less than halfway through until its end. José couldn't help but wonder what would be next for CGI Portugal.

After a long road of different brands (see section *Twenty Years, Three Companies – The History*), different clients and priorities, CGI had just been recognized as one of the most successful IT Consultancy companies in Portugal, with average loyalty and client satisfaction scores of 9.4 and 9.1 out of 10, respectively. Furthermore, 95% of projects were delivered within the predicted deadline and initial budget (see Exhibit 1).

As the Senior Vice-President for Southern Europe, José was responsible for analyzing the next strategic steps for CGI, particularly in Portugal. And although the company had conquered many successes so far, José's position required him to look at the big picture: he knew that there were serious structural problems in CGI and, if ignored, they could potentially harm the company in the not-so-distant future.

The financial crisis in the year 2008 had brought additional barriers to the "business to business" (B2B) industry in Portugal since the actual and potential clients were, from then on, much more interested in best-price solutions, in detriment to quality. This created a significant decrease in the average bill size across the entire IT Consulting Industry, as well as in the number of contracts. Altogether, and still after four years since the crisis started, these factors entailed a sensitive business issue: many people working for the company yet not enough client accounts. José wanted CGI to grow in the following years, in spite of the national market conditions and macroeconomic environment in general (see Exhibit 2).

As a B2B services company, CGI develops its strategy and tactics based on different implications than final consumer oriented companies. The priority at this point was to cement

CGI Portugal reputation as one of the leaders in providing IT consultancy services, while simultaneously optimizing the resources already available to the company – namely the consultants in CGI that exceeded by far the needs of the company’s present clients.

There were, however, different paths in order to reach this goal. José could follow a more conservative road and attempt to expand CGI’s client base nationally; or pursue a less explored path – develop a nearshore destination in Portugal by providing services for countries located nearby (see section *The Dilemma: National Expansion or Nearshore Location?*).

At this point, the option of laying people off might appear to be an obvious one, but José knew that his employees had been through much change and need of adjustment throughout the years, particularly quite recently with yet again another acquisition. Massive lay-offs can have a huge adverse impact in the company’s performance, as well as reputation.

Also, another goal for CGI was to mitigate risk by depending less on the contract with EDP, which as of this point constituted around 60% of the company’s total annual revenues. This partnership with EDP started in 2005 and the contract duration was 10 years<sup>1</sup>. Having said this, José did not believe the path his colleagues in other B2B companies were choosing was the right one for CGI (see Exhibit 3). He started to think about how much has changed since he started working there, back in the year 2005.

## **Twenty Years, Three Companies – The History**

### **The Beginning - Edinfor**

The history of CGI in Portugal begins in 1991 with Edinfor – Sistemas Informáticos S.A., a Portuguese fully owned subsidiary of EDP. Edinfor was considered one of the largest information systems’ suppliers in Portugal back in the year 1999. Nevertheless, the company lacked capabilities to provide its services to companies outside the corporate group it belonged to. Edinfor was a very inflexible company structure-wise, and the decision-making processes were mainly based on intuition rather than quantitative data and analysis.

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<sup>1</sup> Jornal de Negócios Online, 1st June 2012:  
[http://www.jornaldenegocios.pt/empresas/detalhe/administraccedilatildeo\\_da\\_logica\\_apoia\\_venda\\_da\\_empresa\\_agrave\\_cgi.html](http://www.jornaldenegocios.pt/empresas/detalhe/administraccedilatildeo_da_logica_apoia_venda_da_empresa_agrave_cgi.html)

### **Logica and the Partnership with EDP**

In the year of 2005, Logica – an England based IT management and consultancy company – bought the 60% participation of EDP in Edinfor. Moreover, EDP and Logica signed a 10-year outsourcing contract, with an approximate value of 510 million of Euros<sup>2</sup>. Not surprisingly, this partnership with EDP proved to be the major source of revenue for Logica throughout the years.

During the transition between Edinfor and Logica, the company was facing very low net profit levels. Prospect clients often saw the company with distrust and hesitation. Their current clients were many times confused with the change in names, and thought about the two companies as being completely unrelated.

Around the year 2006 the company felt the need to reverse these tendencies, and therefore Logica had to come up with strategies on how to become a highly competitive player in Portugal.

It was between 2007 and 2008 that the company started to see signs of stability in its results, and its credibility was exponentially rising in the market. Five years have passed since the beginning of the partnership with EDP, and Logica realized the priority was to mitigate risk and create alternative sources of revenue by diversifying its clients' portfolio. If Logica wanted to remain in the growing path, it was crucial to cease the dependency on a single contract alone.

More than ever before, during this period, the company understood the true meaning of B2B Marketing: to build and manage a reputation (see section *Reputation is Key – B2B Marketing*). In Portugal, Logica needed to step out of the “comfort zone” with EDP and reach out for new clients by expanding to Spain, which was at the time under-developed. Having said this, around the year of 2011, Logica started to develop the office in Madrid in order to pursue a geographic expansion strategy and strengthen its resources as well as widen its reach regarding new clients' acquisition.

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<sup>2</sup> Jornal de Negócios Online, 10<sup>th</sup> January 2005:  
[http://www.jornaldenegocios.pt/empresas/detalhe/edp\\_celebra\\_contrato\\_de\\_outsourcing\\_de\\_510\\_milhoes\\_com\\_a\\_logicacmg.html](http://www.jornaldenegocios.pt/empresas/detalhe/edp_celebra_contrato_de_outsourcing_de_510_milhoes_com_a_logicacmg.html)



## **CGI: The Company**

In August 2012, CGI – a Canadian company – bought Logica for about 1.7 billion pounds<sup>3</sup>, which converts approximately to 2.2 billion euros in cash. The CGI Group was founded in 1976 and is a multinational consulting, systems integration, outsourcing and solutions company that employs around 68.000 people across 40 countries. Their global growth strategy is to “Build and Buy”, which translates to growing the company both organically as well as through acquisitions – as was the case with Logica.

In Portugal CGI has clients across several different industries: Financial Services, Government, Health, Manufacturing, Oil and Gas, Telecommunications, Transport and Logistics and finally Utilities. Since the core employees in Portugal remained the same throughout the acquisitions, previous clients maintained their professional relationships with CGI. Nevertheless, José knew by personal experience that the adaptation effort required to the employees over the years was substantial.

CGI provides consulting services such as Applications Management and Business Processes Services (BPS), as well as offering an end-to-end service of IT Outsourcing for its clients (see Table A). CGI’s services are centered in the philosophy of building long-lasting, transparent, relationships with its clients.

## **Competitive Environment**

CGI is inserted in the Information Technology Consulting Industry. This industry is built upon the idea of advising businesses on how best to use information technology in order to achieve their business goals. Similarly to CGI, other IT consultancies often provide outsourcing services, so as to be end-to-end providers.

This industry is composed of big IT companies such as Accenture, BT, Fujitsu, IBM, HP, T-Systems, and Dell Services; as well as other local small and medium companies. In Portugal the biggest players in the industry are T-Systems, Accenture, Critical Software, and IBM.

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<sup>3</sup> Bloomberg Business Week, 20<sup>th</sup> August 2012: <http://www.businessweek.com/ap/2012-08-20/cgi-group-closes-2-dot-67b-deal-for-uk-based-logica>

**Table A** CGI Services

<i>Services</i>	<i>Description</i>
IT Outsourcing Services	Being an end-to-end service, it allows clients to control their IT strategies while reducing their operational risks and costs, and without compromising the quality of service they provide to their own clients.
Applications Management	As an offering to maximize the clients' investment in IT, this service is aimed at optimizing the performance and value of technological applications.
Business Processes Services (BPS)	With the goal of reducing clients' operational and administrative costs, BPS adapted approach allows the client to focus on its core business. It's divided in six areas of expertise: Support to the Client and Billing; Payment Services; Corporate Services; Charging Services; Engineer and Logistics Services; and Documents and Data Services.

*Source: Corporate Documents.*

Globally, it is expected that this industry will grow in the following years, and the competition for contracts among players is very dynamic. It is constituted by both big players with a global reach and great resources, and smaller competitors that act in certain niche, regional or metropolitan markets, with a more specialized approach. While the bigger competitors, such as CGI, have a higher reach for client acquisition and more available resources, they also have greater structural costs than the smaller companies.

In Portugal, the financial crisis entailed significant impacts for this industry. As mentioned before, client-companies followed the general tendency of choosing lower prices in detriment of quality. What is more, clients started to fire their outsourced employees, in order to save the jobs of the other employees while cutting costs. As a result of the decrease in the number of projects and respective willingness to pay, the competition became increasingly intense (see Exhibits 4 and 5). The outsourcing sector, in particular, is valued at 1000 million euros<sup>4</sup>, which translates to 0,66% of the GDP in Portugal. Up to 49% of this number is related to IT services (509 M €). Nevertheless, and compared to other countries in Europe, it is a very low number because of several constraints to its development (see Exhibit 6).

<sup>4</sup> Portugal Outsourcing Association: <http://www.portugaloutsourcing.pt/pt/oportunidades.html>

## Reputation is Key – B2B Marketing

### New Project Acquisition in B2B Companies

The process of getting new contracts in B2B companies usually starts with the client company making a Request For Proposal – commonly known as RFP<sup>5</sup> – to several consultancy enterprises. The client has a specific project and they brief the firms in order to get their proposals. On the consultant’s side, a team is allocated to that proposal in order to determine every aspect relevant to the client: from budget to predicted timings. When the bid is ready the firm presents its plan to a committee – usually in the form of interviews – who will then get clarifications on details and evaluate each proposal to decide which company wins the bidding.

An interesting nuance of the B2B client acquisition process is the Sole Source Contracts. This type of contract does not go through a bidding process – rather the client company chooses only one firm, with which it has a previous trusting and transparent long-lasting relationship.

Even if the client still wants to receive proposals from different companies, there is a clear tendency to cut the number of consultants they work with, so as to reduce the transaction cost of constantly assessing the newly arrived consultants. One may even derive that this is the result of the B2B clients’ consideration set<sup>6</sup>. More than any other, the B2B services provider must see reputation as a vital source for competitive advantage.

José crossed the performance data with the project acquisition numbers (see Table B). Although clearly the clients were very pleased with the company’s work after they hired CGI, José felt the percentage of projects won was not enough.

**Table B** CGI Proposals and Contracts

Average number of proposals per year	80
Average % of projects won by CGI	20%
Average number of consultants allocated to each project	5

*Source: Corporate Documents.*

<sup>5</sup> <http://www.negotiations.com/articles/procurement-terms/>

<sup>6</sup> John R. Hauser and Birger Wernerfelt (1990) define Consideration Set as “the brands that the consumer considers seriously when making a purchase and/or consumption decision”.

### **Building, Maintaining and Destroying Corporate Reputation**

The process of building a reputation is a very slow one. Yet, the process of deterioration of a stable reputation can be quite fast. The most globally notorious case of reputation damage is the one concerning Enron and Arthur Andersen. In *The Fragility of Organizational Trust: Lessons from the Rise and Fall of Enron* (2003), Currall and Epstein attribute the central focus of this matter to trust, and reinforce the importance of a favorable track record. Since the decision making process is done with imperfect information, companies and individuals are quite sensitive to past experiences.

In order to maintain a reputation, a company needs to preserve customer loyalty (Rauyruen, Miller, & Barrett, 2005). According to these three authors, the predictor for loyalty is the quality of the relationship, which includes four factors: trust, commitment, satisfaction, and service quality. Moreover, Reichheld and Sasser (1990) have shown that customer loyalty is followed by profitability. A well-maintained reputation can enable firms to endure situations of crisis; if reputation and trust are marginalized, it may very well be the first step to decay, or at least corporate irrelevance (Currall & Epstein, 2003).

CGI had promoted and maintained a solid reputation throughout the years: internationally with the CGI brand, and in Portugal with the former companies. The company needed to take the reputation factor into serious consideration, before selecting which direction to go.

### **The Dilemma: National Expansion or Nearshore Location**

José gathered the senior consultants in a meeting: he wanted to discuss the choice CGI was facing: expanding the business in Portugal or offering nearshore services to neighbor countries. The consultants already knew what the issue at hand was, but some did not understand why there was a decision to make at all. Miguel Fonseca was one of them: he insisted that expanding and developing the national clients was the right move for CGI. He was quick to present his estimates (see Exhibit 7).

Vanda Gonçalves, Marketing Director, although pleasantly surprised with the estimates, informed the group of the vast PR and Sponsoring efforts the company would have to take into account with the national expansion move. This investment, Vanda assessed,

would not have high returns considering how saturated the market was, the predicted decrease in demand and willingness to pay.

Carlos Lourenço, on the other hand, was not sure Miguel's figures – even in the best case scenario – were enough to employ the 40 consultants CGI had in overstaff. The potential revenues in national expansion might be less uncertain than the ones with a nearshore approach, but Carlos felt that the risk of not doing much at all was worse for the company. In sum, Carlos was defending a more radical approach in order to achieve CGI's goals.

The corporate world had been hearing of the concept of offshoring for many decades, and this was often a highly controversial matter. From human rights abuse to communication difficulties, offshoring is considered by many an extremely precarious move.

Nonetheless CGI had a different proposition in mind: nearshore outsourcing<sup>7</sup> (see Exhibit 8). Here, CGI would be the supplier of the nearshore services, meaning that it would compete – both in prices and in quality – with other IT consultancy companies in countries nearby – such as France and Germany. Simultaneously CGI would compete against offshore locations. Having said this, a French company in need of an IT service would consider, in theory, (1) their domestic IT consultants, (2) offshoring to distant locations such as India, or finally (3) nearshoring – which would be where CGI Portugal would come in.

The differentiation factors of nearshoring are two: pricing – which should be lower than the offerings of national companies; and the avoidance of offshoring risks – such as lack of control, communication barriers, among others.

CGI as a nearshore services provider would then be a solution for clients that want lower prices but still wish to avoid the difficulties that arise with offshoring. And Portugal, as Carlos pointed out, was indeed a great nearshore location for prospective clients in Europe: from low wages to good language skills.

However, José reminded everyone, this option would not be complication-free for CGI. It would involve insightful conversations and profound negotiations with the CGI

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<sup>7</sup> The website SourcingMag.com defines Nearshore Outsourcing as “The transfer of business or IT processes to companies in a nearby country, often sharing a border with your own country. In the US, nearshoring describes work sent to Canada and Mexico. Nearshoring is a popular model for companies that don't want to deal with the cultural, language or time zone differences involved in offshoring”:  
<http://www.sourcingmag.com/dictionary/nearshore-outsourcing/>

offices in the countries the company would operate, as well as an increased complexity in the accounts and projects management. It would be an extensive and slow process for CGI.

CGI predicted that by the end of the fiscal year of 2014 it could allocate around 100 employees to the nearshore projects, in four different European countries: Finland (60% of projects), Denmark (20% of projects), France and Germany (each 10% of projects). Nevertheless, José believed the company needed more data in order to decide.

The meeting was adjourned and, in collaboration with Portugal Outsourcing Association, CGI ordered a study comparing a few nearshore destinations against Portugal, according to several indicators (see Exhibits 9 to 9D).

After analyzing the output of the study carefully, José could read in the conclusions:

**Table C** Conclusions of the Study – Portugal Outsourcing Association

Exports continue to show a strong growth and bureaucracy is decreasing.
Contraction of domestic economy has spurred competition and competitiveness.
The quality of infrastructures is a competitiveness factor highly valued by foreign investors.
Significant progress in the flexibility of labor laws.
Reduction in unit labor costs equates Portugal to Eastern European countries.
Increased competitiveness of job function resulting from the increased labor flexibility, from reduced values of compensation and of extra hours.
Availability of work force has increased, despite the emigration of some recent graduates.
The skills and qualities of the talent base of Portugal continue to outperform the arguments for offshore destinations.
Increased tax burden is offset by the demand for efficiency or reduction in operating margins.
Future relief of current tax burden will encourage more foreign investment.

*Source: Portugal Outsourcing Association, "Portugal as a Nearshore Outsourcing Destination", 2012 Edition.*

## **Conclusion**

How should CGI expand its client base, and optimize its available resources? The options were simple and clear: either go for the comfortable choice, while fronting ferocious competition and possible fewer returns in a crowded market by expanding the national business; or choose the road less travelled, facing significant risks but also higher potential earnings with the nearshore approach.

The decision between the two, however, was complex. Reputation in B2B companies is a non-negotiable factor, and CGI had built an incredible one over the years. Having said so, the volatile facet of trust and reputation adds pressure to the decision making process for CGI. On the other hand, José felt the increasing pressure to optimize the company's existing resources as well as mitigate risk by creating additional sources of revenue.

As José was heading to his next board meeting, he knew his decision could possible change the company's future for years to come.

## TEACHING NOTE

The case study “CGI: Reaching out for New Sources of Revenue in a B2B Market Context” aims to expose a different side of Marketing – Relational Marketing or Reputation Management in a B2B market context. Every B2B company is highly dependent on it in order to grow and gather new strategic client accounts.

Since this is a less discussed area of marketing activities in the classrooms around the world, this case study intends to be an introduction tool for students to the marketing management rationales in B2B services companies. The case study also introduces the outsourcing matters of Offshore and Nearshore, as a way to clarify their relevance and implications in the business world.

Furthermore, it intends to be a practical mean for students to develop their critical and analytical thinking, as well as information processing, with imperfect and scattered data. Also, given the unfavorable conditions of the Portuguese market presented in the case, it allows students to grasp the possible constraints a company may face, and what alternatives exist to overcome them.

### Main and Secondary Objectives

**Main Objective:** To help students recognize the great differences between managing B2B companies and B2C ones, by deciding between alternatives on the best way to overcome the overstaffing problem in a company.

#### Secondary Objectives:

1. Expose a different side to Marketing Management: Reputation Management.
2. Uncover the different nuances of B2B companies regarding reputation, branding and new client/ project acquisition.
3. Introducing students to the topic of nearshoring, and respective implications.
4. Enhance the students’ capabilities of making a decision with non-structured and non-filtered information, in a very unfavorable market context.



## **Literature Review – Reputation and Relational Marketing**

Lancastre and Lages (2006) stated that B2B buyers are market price driven, meaning that pricing plays a major role in the decision process of prospect clients. Conversely, there is a tendency for B2B companies to focus on objective matters, in detriment of more subjective ones such as branding. And they are not necessarily wrong in doing so: one study found that branding activities have a relative importance of only 16% in the buyers' decisions, the delivery period being the most important factor (27%) followed by price (24%) and technology (19%) (Bendixen, Bukasa, & Abratt, 2004).

This reinforces, once again, the gap between managing B2C versus B2B organizations. Nevertheless, one might argue that branding can entail a broader definition and, consequently, excellent customer service and trust between parts can constitute great opportunities for branding (Ballantyne & Aitken, 2007).

Furthermore, efforts to nurture long lasting relationships with clients as well as sustaining a good reputation have a very subjective nature – contradicting the theory of purely rational B2B buyers (Ballantyne & Aitken, 2007).

Relational Marketing is where the marketing activities of the two different businesses cross. Corporate reputation is a very comprehensive construct, which can be defined as a functional result of the combination between valuable elements (Otubanjo & Chen, 2011). Some of these elements are trust, commitment, customer cooperation and loyalty (Lancastre & Lages, 2006).

Lancastre and Lages (2006) continue on to suggest that trust – the decision to rely on another party under a condition of risk (Currall & Epstein, 2003) – should be considered as the first step to developing a successful relational marketing strategy.

## Teaching Questions and Suggested Answers

**Question 1** Based on Porter's Five Forces conceptual frame, discuss the factors that have changed in CGI's competitive environment and industry because of the financial crisis.

**Question 2** Examine exhibits 2 to 5. What information do they give you regarding CGI's opportunities in Portugal? And threats?

*Objectives Questions 1 and 2: Understand the market environment of the company, as well as future market potential, and how much impact an external event may have on an organization.*

**Question 3** Discuss the main differences between B2C and B2B Marketing regarding three domains: (1) Reputation; (2) Branding; and (3) New Client/Project Acquisition.

*Objectives: Recognize the main differences between B2B and B2C companies, in order to better analyze the data and develop an adapted approach to this case.*

**Question 4** Explain the problem CGI was facing and what the alternatives paths were in order to overcome it. Do you agree with Miguel Fonseca: is there a choice to make? Explain why.

*Objectives: This is an opportunity for students to systemize the information in the case study. Also, it attempts to allow students to commit to an opinion, by presenting arguments in favor or against one of the characters in the case.*

**Question 5** Carefully analyze the output of Portugal Outsourcing Association study (Exhibits 9). Identify the indicators in which Portugal ranks the best, and discuss their relative importance for a prospective European client. What are the implications for the dilemma?

*Objectives: Analyze the potential for the nearshore alternative, by identifying what would be the leveraging aspects of Portugal (and CGI) and its weaknesses.*

**Question 6** Discuss the main differences between the three types of outsourcing – onshore, offshore, and nearshore – in a prospective client's perspective.

*Objectives: This is an opportunity for students to summarize the information they have received on the three types of outsourcing. It is a helping tool to answer the next question.*

**Question 7** Identify and discuss the arguments for each alternative path. Characterize both according to their implications on: corporate reputation, risk, potential earnings, and goal achievement.

*Objectives: As an introduction to the final recommendation in the next question, students have the chance to discuss in class the pros and cons of the two alternatives.*

**Question 8** Was Carlos Lourenço right about his suspicion regarding Miguel's estimations? Prepare your recommendation to CGI.

*Objectives: In order for students to grasp the analytical decision making process, this question is the only one that does not entail subjective opinions – in the first part. It implies objective analysis and conclusions regarding the results. Nevertheless the final recommendation for CGI should be an open discussion in class. Subjective while valid arguments should be accepted and encouraged.*

### Suggested Answers

*Note: With the exception of Question 8, there is no right or wrong answer. This section simply intends to present some guidance elements and examples for the classroom discussion.*

#### Question 1

Buyers' Bargaining Power: Increased substantially – number of projects decreased; clients' tendency to fire consultants before actual employees.

Rivalry among Existing Firms: Increased substantially – with price pressure service differentiation decreases; high exit barriers due to elevated structural costs.

#### Question 2

Opportunities: Increase in exports; be differentiated from other companies by not cutting off on staff; the variation of expected evolution or price charged and demand, although still negative, is clearly in a positive tendency; amount of services rendered seems to have slightly increased.

Threats: GDP decreasing; Population decreasing; Turnover index has decreased significantly in the past year.

**Question 3**

<b>Reputation</b>	The importance of a good track record for B2B
	The Sole Source Contracts – loyalty preserves reputation
<b>Branding</b>	Authors defend it is not as important as price and delivery time
	Broader definition of branding: B2B and B2C might cross
	Excellent customer relationship and trust might be considered branding
<b>New Client/Project</b>	RFP Process much longer than B2C purchase decisions
	Client is not an individual but a committee

**Question 4**

<b>Problem</b>	Too many consultants (internal factor) for fewer projects (external factor).
<b>Goal</b>	Optimize the use of the available resources while trying to get new sources of revenue and grow as a company.
<b>Alternatives</b>	(1) Develop and Expand the National Clients (2) Provide services to European clients by outsourcing nearshore

Regarding Miguel Fonseca’s opinion, it is of course acceptable that students defend whichever side they feel is the right one, as long as arguments are presented with a logical approach.

**Question 5**

*Before answering this question, it may be helpful to draw a graph in order to make sure students understood how nearshore works:*



**Suggested Answer Layout:**

Domain	Indicator	Relative Importance
<b>Country</b>	R&D and Innovation Investment as % of GDP	Important
	Ease of Doing Business Rank	Very Important
<b>Infrastructure</b>	Intellectual Property Protection	Very Important
	Quality of Overall Infrastructure	Important
	eGovernment	Important
<b>Skills</b>	Labor Regulations and Availability of Skilled Labor	Very Important
	Language Skills and English Proficiency	Extremely Important
	Public Expenditure on Education as % of GDP	Very Important
<b>Costs</b>	Cost of Staff and Labor Compensation per Unit of Labor Input	Extremely Important (24% - page 10)
	Cost of Telecommunications	Important

**Implications:** Again, this is dependent on the students' critical thinking. Nevertheless, some examples are:

- The factors in which Portugal performs well – and are very or extremely important to the client – show us that there might be an attractive market to be explored with nearshore;
- Portugal ranks quite well compared to other European countries, i.e. eastern European which should be our biggest competition in a nearshore strategy;
- We should also observe the aspects in which Portugal ranks lower, and cross that information with the relative importance of the indicators.

**Question 6**

	Country Location	Costs	Communication	Cultural Differences
<b>Onshore</b>	Same country	Highest (+)	Natural (++)	None (0)
<b>Offshore</b>	Far away	Lowest (--)	Complicated (--)	High (--)
<b>Nearshore</b>	Neighbor	Lower (-)	Easy (+)	Some (-)

**Question 7**

	<b>(1) National Expansion</b>	<b>(2) Nearshore Services</b>
<b>Corporate Reputation</b>	The increase in PR and sponsoring may have negative effects on reputation, especially with current clients. A national expansion strategy may harm the trust the existing clients have with CGI.	Complications due to the fact of having to manage CGI Portugal's reputation and the CGI office in the client's country. Higher complexity in account and project management.
<b>Risk</b>	Lower risk since it is within the national market and requires less complexity in the business processes.	Higher risk because of higher number of agents in the process, as well as because of the novelty factor and the learning curve for CGI Portugal.
<b>Potential Earnings</b>	Lower because of the market conditions: fewer contracts and projects; high bargaining power of clients; fierce competition; best-price paradigm.	Substantial potential returns considering the target countries would see CGI Portugal services as "cheap" without having to compromise on the quality factor.
<b>Goal Achievement</b>	May perform better because of less uncertainty. May perform worse because it consists basically of doing the "same thing", but trying to gather more clients.	May perform better because of more favorable market environment and competition; Competitive advantage is higher in this alternative. May perform worse because of uncertainty and complexity.

**Question 8**

Average Number of Projects/ year = Average # of Proposals \* Average % projects won by CGI

Average Number of Projects/ year =  $80 * 20\% = 16$  projects

Total Number of Consultants Hired/ year = Average # of Projects \* Average # of Consultants

Total Number of Consultants Hired/ year =  $16 * 5 = 80$  consultants hired

**# of “Free” Consultants: 40**

Base: Values from 2012	Favorable Conditions		Unfavorable Conditions	
	By 2013	By 2014	By 2013	By 2014
<b>Base Value # Projects = 16</b>				
<b>Estimated Increase in Number of Contracts %</b>	37,5%	43,75%	12,5%	18,75%
<b>Additional # Projects</b>	6	7	2	3
<b>Additional # Consultants Hired</b>	30	<b>35</b>	10	15

*The answer is:* Yes, Carlos was right about his suspicion. Indeed, even in the best case scenario and in two years from now, this strategy would only manage to hire 35 new consultants. One may assume that CGI will not stop recruiting in a two-year period, so the difference may even be greater.

Despite this fact, one may also argue that the number is close enough, given that it is an approximate value, and the risk of developing a nearshore strategy may be too high. Hence the importance and value of class discussion: each individual can develop their own opinion and greatness is achieved when all parts are heard and both have legitimate and logical arguments.

## EXHIBITS

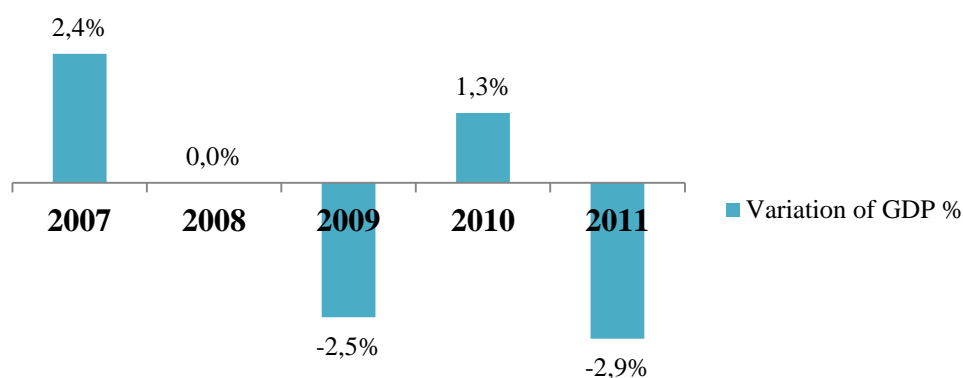
### Exhibit 1 CGI Performance Scores – Year 2012

Client Satisfaction Score	9.1 out of 10
Client Loyalty Score	9.4 out of 10
% of projects delivered on time and within the allocated budget	95%

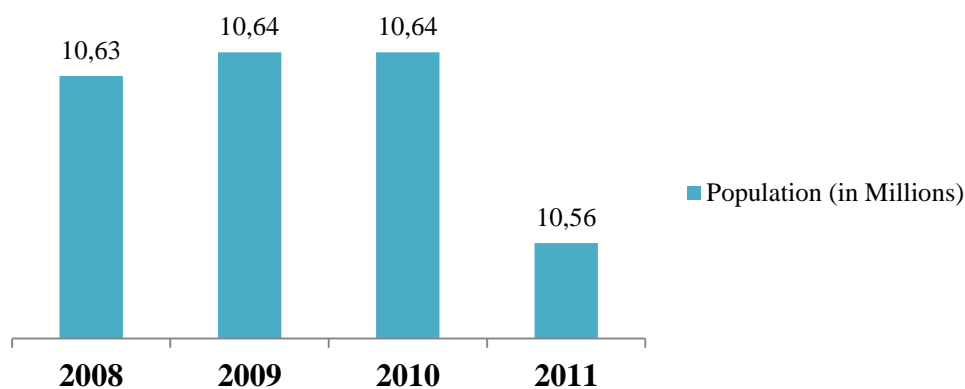
Source: Corporate Documents.

### Exhibit 2 Key Macroeconomic Indicators - Portugal

#### Variation of GDP %

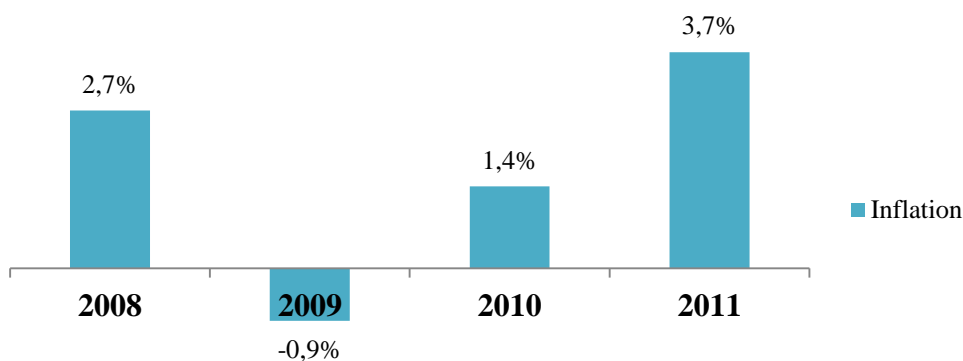


#### Population (in Millions)

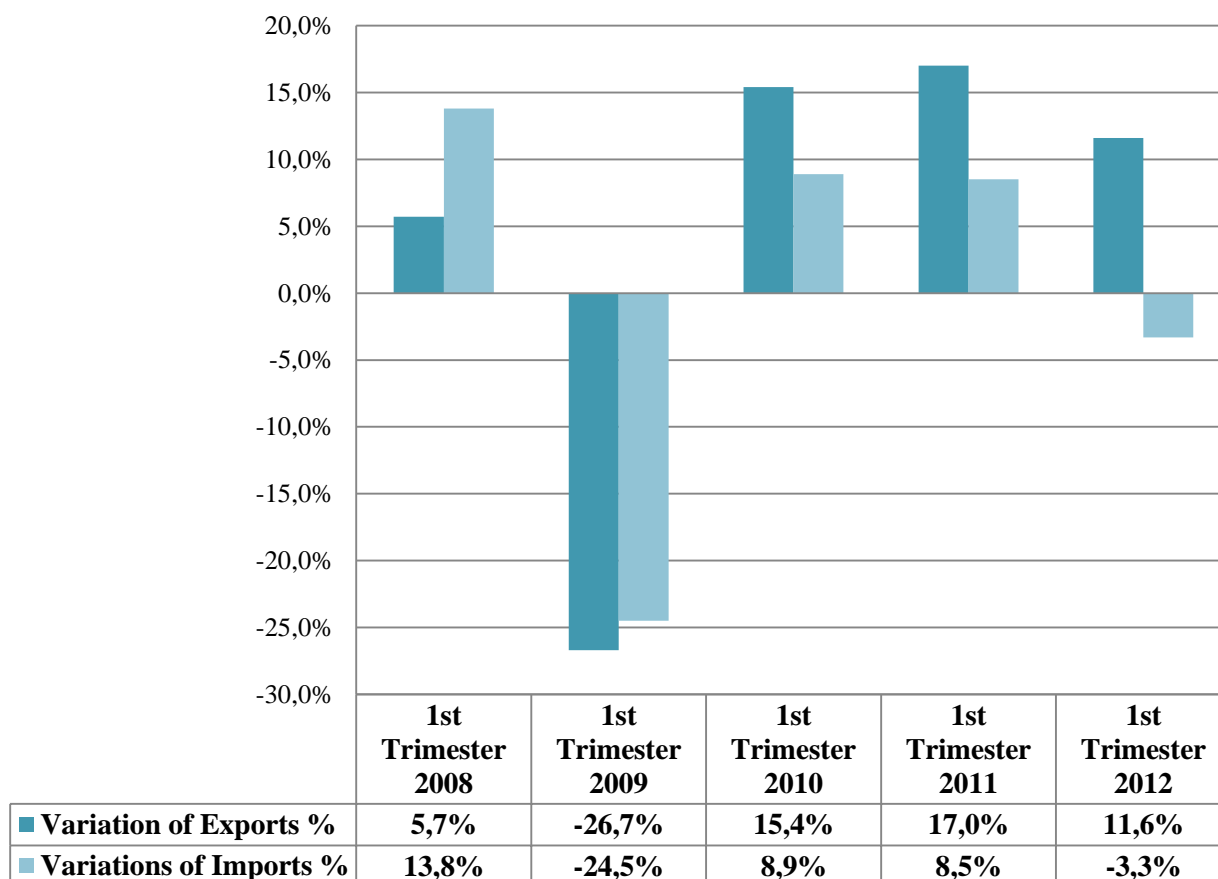




### Inflation

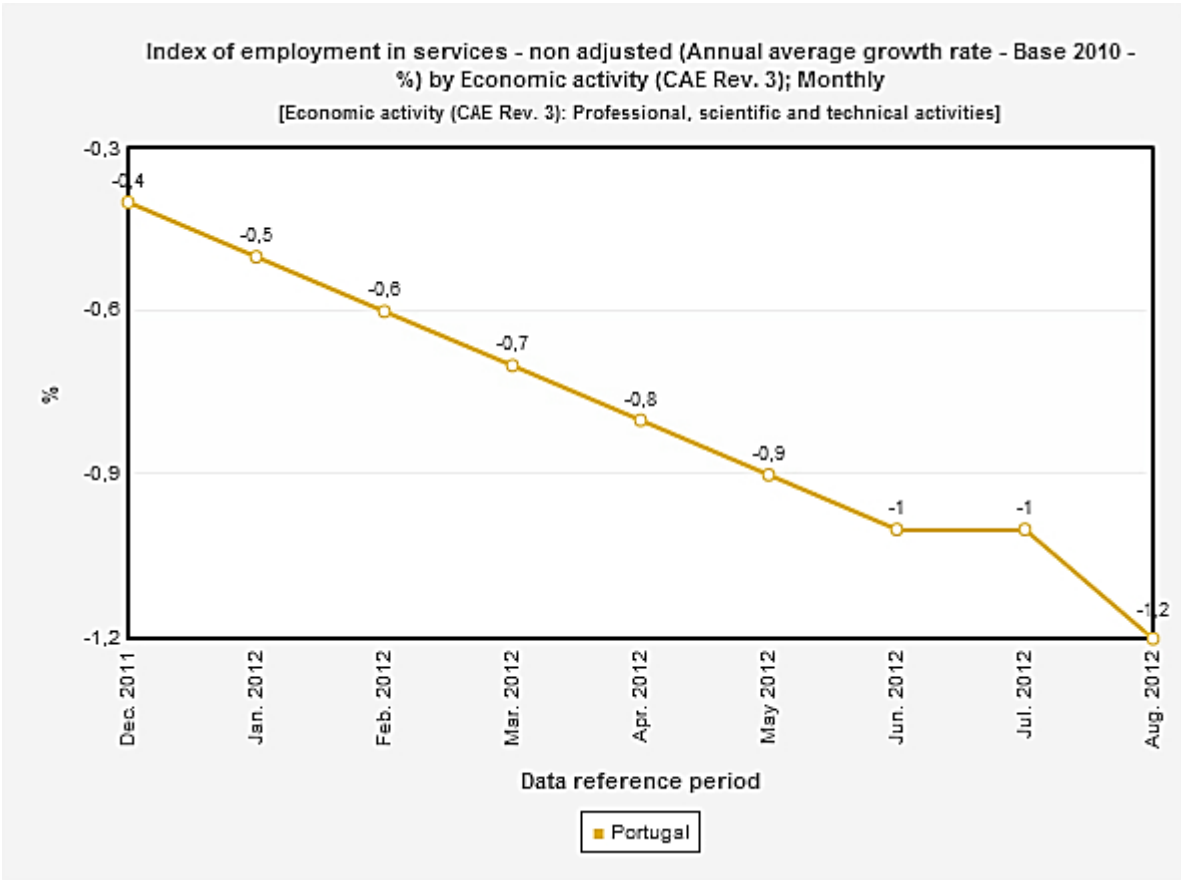


### Variation in Exports and Imports



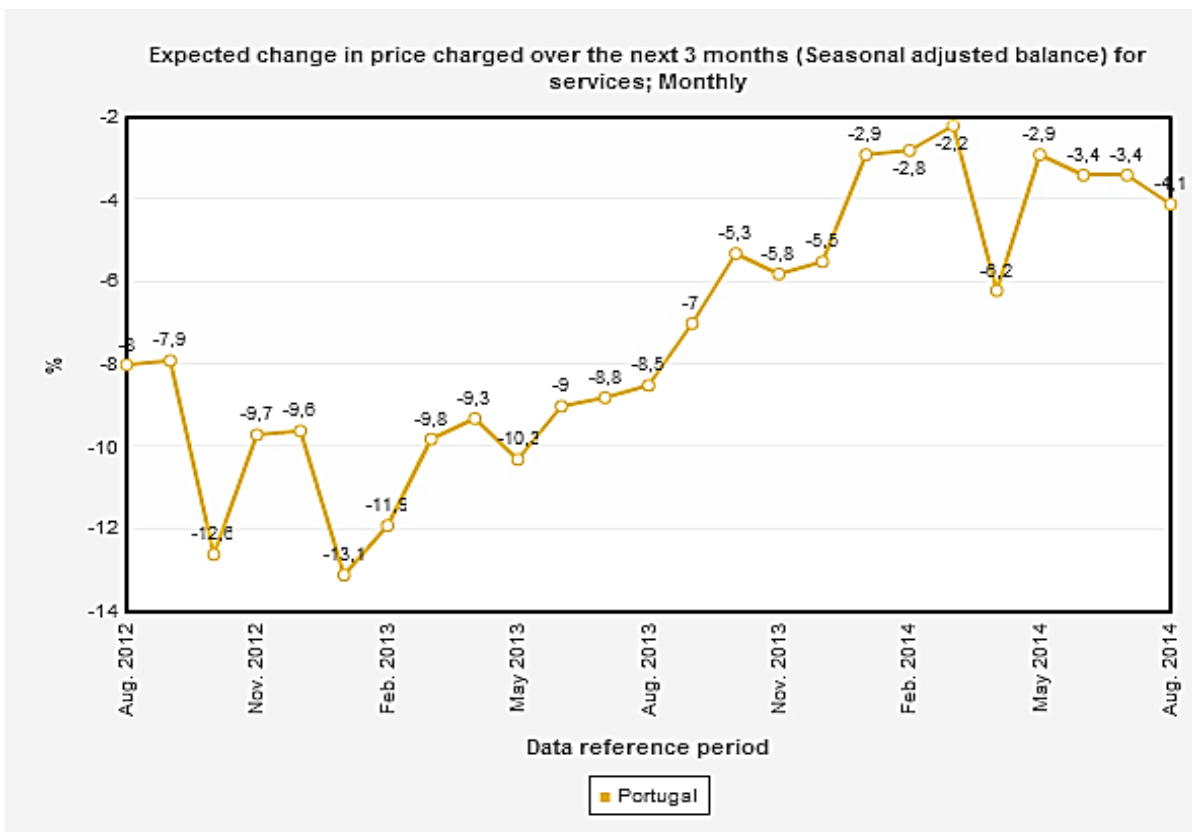
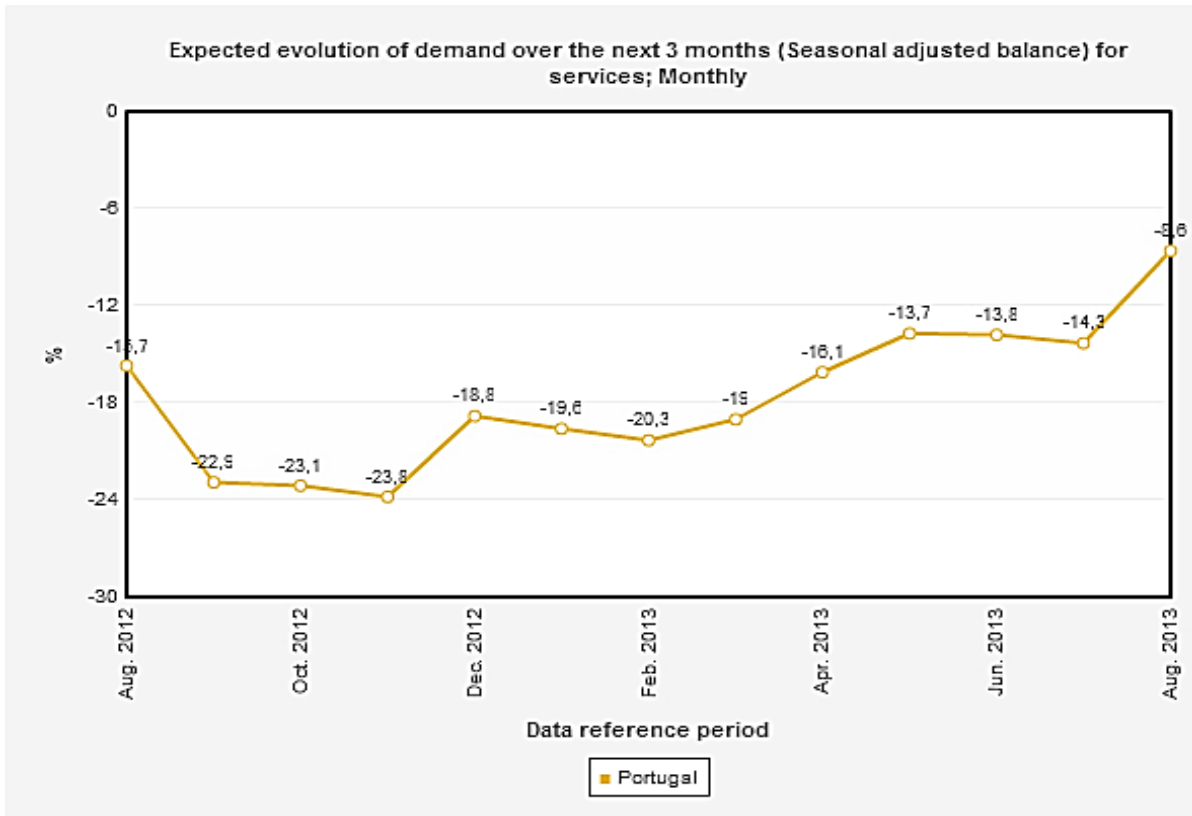
Source: Portugal Outsourcing Association, “Portugal as a Nearshore Outsourcing Destination”, 2012 Edition.

**Exhibit 3 Index of Employment in Services – Professional, Scientific and Technical Activities – December 2011 to August 2012**



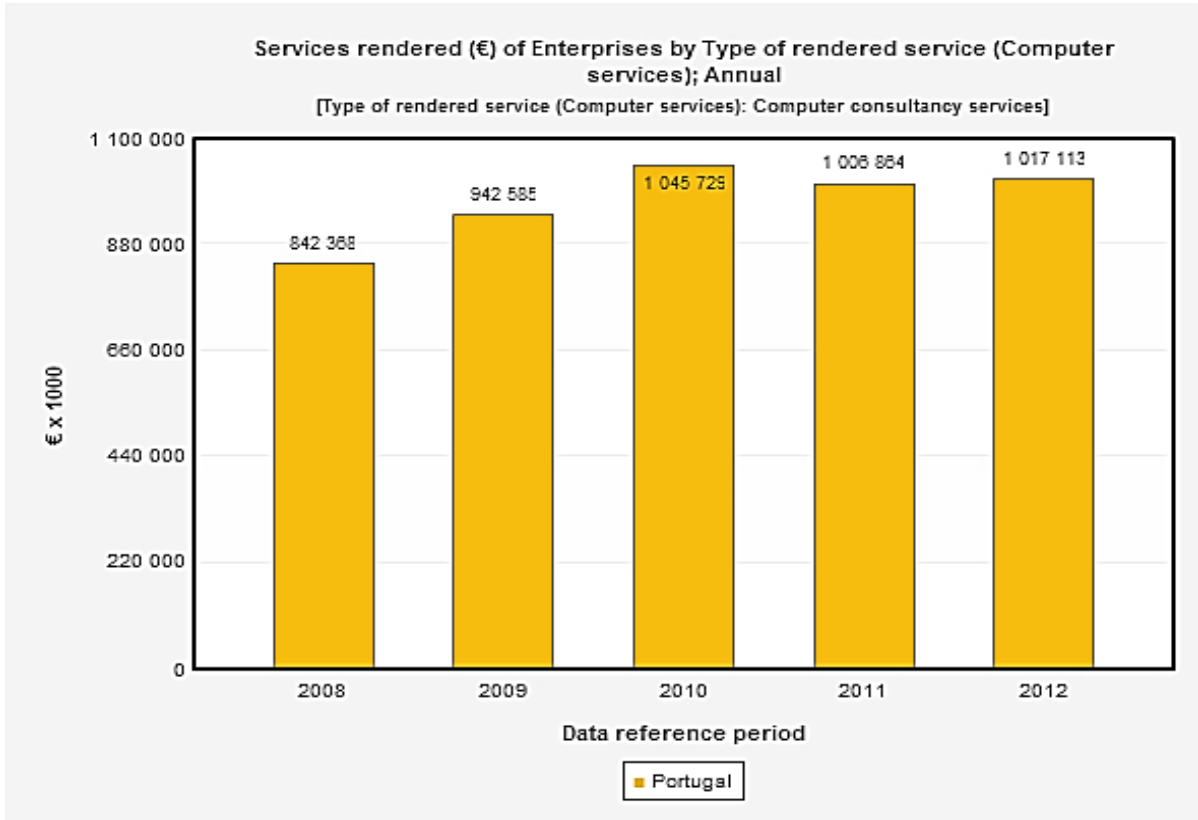
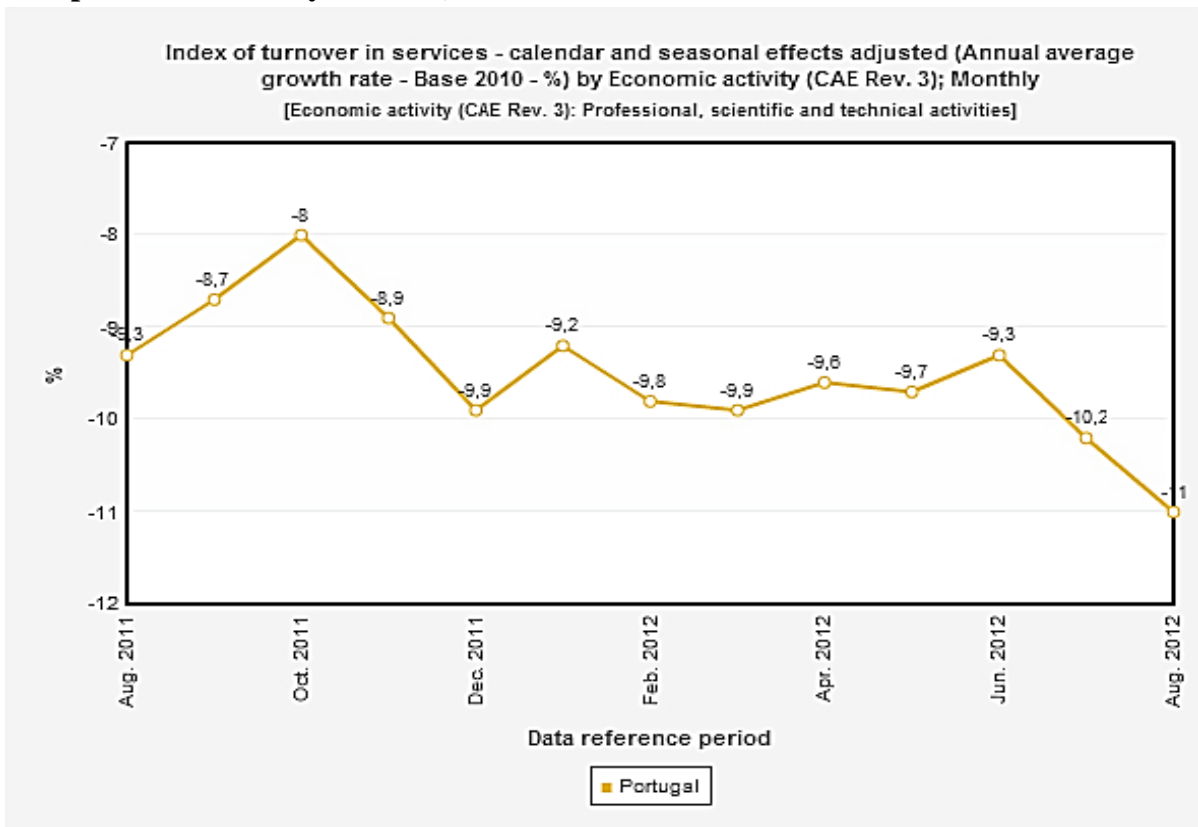
Source: Statistics Portugal (Instituto Nacional de Estatística): <http://www.ine.pt/>

**Exhibit 4 Expected Evolution of Demand and Price Charged (Services) – August 2012 to August 2013**



Source: Statistics Portugal (Instituto Nacional de Estatística): <http://www.ine.pt/>

**Exhibit 5 Turnover Index (% - Professional Services) and Services Rendered (€ - Computer Consultancy Services)**



Source: Statistics Portugal (Instituto Nacional de Estatística): <http://www.ine.pt/>

**Exhibit 6 Outsourcing in Portugal: Challenges and Opportunities**

<b>Challenges</b>		<b>Opportunities</b>	
<b>Labor Factors</b>	<ul style="list-style-type: none"> <li>- Lack of adaptation of labor laws to the international context.</li> <li>- Lack of flexibility in contracts.</li> <li>- Rigidity in the salary models.</li> </ul>	<b>Labor Factors</b>	<ul style="list-style-type: none"> <li>- Highly qualified human resources.</li> <li>- Labor costs very competitive in comparison to other European countries.</li> </ul>
<b>Fiscal Factors</b>	<ul style="list-style-type: none"> <li>- National taxes among the highest in Europe.</li> <li>- Nonexistence of a specific regimen for outsourcing.</li> </ul>	<b>Geography Factors</b>	<ul style="list-style-type: none"> <li>- Favorable geographic location as well as easy mobility in the EU.</li> </ul>
<b>Cultural Factors</b>	<ul style="list-style-type: none"> <li>- Negative perception in society regarding job protection and labor rights in outsourcing.</li> </ul>	<b>Cultural Factors</b>	<ul style="list-style-type: none"> <li>- Portuguese capabilities to adapt to different cultures and languages.</li> </ul>

Source: Adapted from Portugal Outsourcing Association Website: <http://www.portugaloutsourcing.pt/>

**Exhibit 7 Estimated Figures for National Development and Expansion**

Base: Values from 2012	<b>Favorable Conditions</b>		<b>Unfavorable Conditions</b>	
	By 2013	By 2014	By 2013	By 2014
<b>Estimated Increase in Number of Contracts % (Non-cumulative)</b>	37,5%	43,75%	12,5%	18,75%

Source: Adapted from corporate documents.

## **Exhibit 8 Onshore, Offshore and Nearshore – What is the Difference?**

*Source: Article by Ray Levitzki in Etech Global Services (etechgs.com) in 17<sup>th</sup> June 2012*

Companies may choose to meet operational needs by outsourcing their contact center operations to onshore, offshore, or near shore locations. They base their decisions, in part, on cost comparisons, proximity to their business location, and language or cultural considerations. It would be helpful to begin by defining the terms “onshore”, “offshore” and “near shore”.

**Onshore Outsourcing:** Outsourcing operations of the company to another company located in the home country or region. Companies can reduce labor costs somewhat and benefit from highly skilled labor with little or no language or cultural barrier, but the cost of such operations is high compared to offshore or near shore locations.

**Offshore Outsourcing:** Outsourcing the operations of the company to other companies that are located in a foreign country, and most likely have a different language and culture. Offshore outsourcing offers benefits like higher cost savings and access to highly skilled labor.

**Near Shore Outsourcing:** Outsourcing the operations of the company to an adjacent or nearby country having similar culture and language skills. Near shore outsourcing offers some cost savings over onshore and has the added benefit of proximity for more frequent site visits, while retaining a highly skilled labor pool.

### **Comparative Aspects of Onshore, Offshore and Near Shore Outsourcing Cost-Savings**

One of the most important reasons for companies to consider outsourcing all or some of their operations to other companies is cost savings. The direct labor costs of offshore locations can be much less than onshore locations. Other aspects, such as travel costs, can be efficiently managed by the companies to improve the bottom line. However, some companies may consider near shore options due to other benefits, such as similar culture and easier travel to near shore locations. But with depreciation of currencies in some offshore countries, companies are largely considering offshore outsourcing.

**Speed of Execution:** The speed of execution depends upon the complexity of the campaign and the firm handling the outsourcing project. The availability of resources and the ability to define requirements clearly are also two key dimensions that can affect the speed of execution. Due to lower direct labor costs, offshore firms have greater flexibility in piling on resources in advance of a project, and in beginning implementation more quickly than an onshore firm; onshore firms cannot afford to maintain idle resources and they must hire and train agents for new project implementation. Onshore firms tend to be more efficient in

requirements collection and definition due to a lack of language and cultural barriers. Offshore firms can also handle requirements communication, but they must work to overcome language and culture barriers.

**Quality and Expertise:** At most contact center locations, whether onshore, offshore or near shore, there is an abundance of high quality professionals with domain-specific expertise. While language and cultural barriers can impact the quality of service provided, this gap can be closed through specialization and quality control.

**Execution Risk:** Every outsourcing project faces execution risk. This risk is increased when projects are outsourced to near shore or offshore locations. However, execution risks can be mitigated and greatly reduced through both a risk management plan, and an effective management plan.

Businesses contemplating outsourcing their project to onshore, near shore, or offshore firms must make a decision after comparing all of the benefits offered. The choice made by the businesses will depend completely upon their own unique needs and goals.

## **Exhibits 9 Comparison between Nearshore Destinations – Country, Infrastructures, Skills and Costs**

*These exhibits present the results of the study “Portugal as a Nearshore Outsourcing Destination” (2012 Edition), divided into four different domains: Country, Infrastructures, Skills, and Costs. The study ranks each of the nine countries, from 1 (best performing) to 9, according to the indicators in each domain.*

### **Countries**

**CZ:** Czech Republic

**ES:** Spain

**IE:** Ireland

**HU:** Hungary

**NL:** Netherlands

**UK:** United Kingdom

**PT:** Portugal

**PL:** Poland

**RO:** Romania

### **Others**

(+) Positive Variation

(=) No Variation

(-) Negative Variation

(\*) No Data Available



**Exhibit 9A Comparison between Nearshore Destinations - Country Domain**

<i>Rank Position 2012</i>	<b>9</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<i>Variation Rank 2011 PT</i>
<b>GDP Growth Rate %</b> EUROSTAT, 2010	<b>PT</b>	UK	IE	ES	NL	HU	CZ	RO	PL	7 <sup>th</sup> → 9 <sup>th</sup>
	-1.6	0.7			1.2	1.6	1.7	2.5	4.3	(-)
<b>R&amp;D and Innovation Investment as % of GDP</b> EUROSTAT, 2010 (33 countries)	RO	PL	HU	ES	CZ	<b>PT</b>	UK	IE	NL	(=)
	0.47	0.74	1.16	1.39	1.56	1.59	1.77	1.79	1.83	(=)
<b>Enabling Trade Index</b> WEF – The Enabling Trade Index, 2012 (132 countries) [min 1; max 7]	RO	PL	HU	CZ	<b>PT</b>	ES	IE	UK	NL	(=)
	4.00	4.37	4.39	4.42	4.63	4.79	4.96	5.18	5.32	(=)
<b>E-Readiness Score</b> EIU – Digital Economy Rankings, 2010 (70 countries) [min 1; max 10]	RO	PL	HU	CZ	<b>PT</b>	ES	IE	UK	NL	(=)
	5.04	5.70	6.06	6.29	6.90	7.31	7.82	7.89	8.36	(=)
<b>Ease of Doing Business Rank</b> World Bank – Doing Business, June 2011 (183 countries)	RO	CZ	PL	HU	ES	NL	<b>PT</b>	IE	UK	4 <sup>th</sup> → 3 <sup>rd</sup>
	72 <sup>th</sup>	64 <sup>th</sup>	62 <sup>th</sup>	51 <sup>th</sup>	44 <sup>th</sup>	31 <sup>st</sup>	30 <sup>th</sup>	10 <sup>th</sup>	7 <sup>th</sup>	(+)
<b>Governance Matters Score</b> The World Bank Group Worldwide Governance Indicators Report, 2011 (200 countries) [min 0; max 100]	RO	HU	ES	PL	<b>PT</b>	CZ	UK	IE	NL	4 <sup>th</sup> → 5 <sup>th</sup>
	57.82	72.86	74.08	75.03	78.40	78.75	86.45	90.49	93.37	(-)

Source: Adapted from Portugal Outsourcing Association, "Portugal as a Nearshore Outsourcing Destination", 2012 Edition.

**Exhibit 9B Comparison between Nearshore Destinations - Infrastructures Domain**

<i>Rank Position 2012</i>	<b>9</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<i>Variation Rank 2011 PT</i>
<b>Quality of Telecommunications</b> Cushman & Wakefield European Cities Monitor, 2011 (36 countries)	RO	HU	CZ	<b>PT</b>	PL	IE	ES	NL	UK	5 <sup>th</sup> → 6 <sup>th</sup> (-)
	34 <sup>th</sup>			31 <sup>st</sup>	29 <sup>th</sup>	25 <sup>th</sup>	11 <sup>th</sup>	7 <sup>th</sup>	1 <sup>st</sup>	
<b>Software Piracy Rate %</b> Annual Piracy Study by IDC, 2010 (111 countries)	RO	PL	ES	HU	<b>PT</b>	CZ	IE	NL	UK	(=)
	64	54	43	41	40	36	35	28	27	
<b>ICT Expenditure as % of GDP</b> EUROSTAT, 2011 (27 countries)	RO	PL	HU	ES	<b>PT</b>	CZ	NL	IE	UK	(=)
	1.2	1.7	1.8		2.1	2.2	2.8		3.8	
<b>Intellectual Property Protection</b> World Economic Forum, 2011-12 (142 countries) [min 1; max 7]	RO	PL	CZ	HU	ES	<b>PT</b>	UK	IE	NL	(=)
	3.0	3.7		4.1		4.2	5.7		5.8	
<b>Quality of Overall Infrastructure</b> World Economic Forum, 2011-12 (142 countries) [min 1; max 7]	RO	PL	IE	HU	UK	CZ	ES	NL	<b>PT</b>	(=)
	2.3	3.8	4.6	4.8	5.6		5.8	6.0	6.1	
<b>eGovernment</b> Digitizing Public Services in Europe, 2010 (33 countries) [min 0; max 100]	RO	HU	CZ	PL	NL	ES	UK	IE	<b>PT</b>	(=)
	30 <sup>th</sup>	26 <sup>th</sup>	21 <sup>st</sup>	20 <sup>th</sup>	10 <sup>th</sup>	9 <sup>th</sup>	7 <sup>th</sup>	1 <sup>st</sup>		

Source: Adapted from Portugal Outsourcing Association, "Portugal as a Nearshore Outsourcing Destination", 2012 Edition.

**Exhibit 9C Comparison between Nearshore Destinations - Skills Domain**

<i>Rank Position 2012</i>	<b>9</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<i>Variation Rank 2011 PT</i>
<b>Labor Regulations</b> IMD World Competitiveness, 2012 [min 1; max 10]	(*)				ES	NL	<b>PT</b>	UK	CZ	N/A
	(*)				3.85	5.0	5.49	5.53		N/A
<b>Availability of Skilled Labor</b> IMD World Competitiveness, 2012 [min 1; max 10]	(*)						<b>PT</b>	ES	IE	N/A
	(*)						6.2	6.7	8.1	N/A
<b>Language Skills</b> IMD World Competitiveness, 2012 [min 1; max 10]	(*)		ES	HU	UK	IE	RO	<b>PT</b>	NL	(=)
	(*)		3.0	3.8	4.0	5.0	6.4	8.0	8.3	(=)
<b>English Proficiency TOEFL (IB)</b> TOEFL, 2011 [min 1; max 120]	(*)	ES	PL	RO	HU	CZ	UK	<b>PT</b>	NL	3 <sup>rd</sup> → 2 <sup>nd</sup> (+)
	(*)	88	90	91			94	96	100	(+)
<b>Graduation Rates at Tertiary Level %</b> OECD Education at a Glance, 2011	(*)	HU	<b>PT</b>	NL	CZ	ES	PL	UK	IE	(=)
	(*)	34.7	40.6	41.8	42.5	42.7	50.3	59.6	72.7	(=)
<b>Public Expenditure on Education as % of GDP</b> IMD World Competitiveness, 2012 (59 countries)	ES	RO	HU	CZ	PL	UK	<b>PT</b>	NL	IE	1 <sup>st</sup> → 3 <sup>rd</sup> (-)
	4.37	4.58	5.4	5.53	5.67	5.91	6.46	6.99	7.14	(-)

Source: Adapted from Portugal Outsourcing Association, "Portugal as a Nearshore Outsourcing Destination", 2012 Edition.

**Exhibit 9D Comparison between Nearshore Destinations - Costs Domain**

<i>Rank Position 2012</i>	<b>9</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<i>Variation Rank 2011 PT</i>
<b>Total Tax Revenue as % of GDP</b> EUROSTAT, 2010	NL	HU	UK	<b>PT</b>	CZ	ES	PL	IE	RO	(=)
<b>Cost of Hotels</b> Hotels.com, Hotel Price Index, 2011 (71 cities) [priciest is first in this ranking]	NL	ES	UK	<b>PT</b>	IE	CZ	RO	HU	PL	5 <sup>th</sup> → 6 <sup>th</sup> (-)
<b>Cost of Staff</b> Cushman & Wakefield European Cities Monitor, 2011 (36 countries) [cheapest is first in this ranking]	UK	NL	IE	ES	CZ	HU	<b>PT</b>	PL	RO	2 <sup>nd</sup> → 3 <sup>rd</sup> (-)
<b>Cost of Telecommu- -nications</b> IMD World Competitiveness, 2012 (59 countries)	(*)		NL	IE	CZ	<b>PT</b>	HU	PL	RO	8 <sup>th</sup> → 4 <sup>th</sup> (+)
<b>Cost of Living</b> Mercer Quality of Living World City, 2011 (214 cities)	(*)	NL	IE	UK	<b>PT</b>	ES	CZ	HU	PL	3 <sup>rd</sup> → 5 <sup>th</sup> (-)
<b>Labor Compensation per Unit Labor Input</b> OECD System of Unit Labor Cost – Growth Rate, 2011 (30 countries)	(*)	HU	UK	PL	CZ	NL	IE	ES	<b>PT</b>	4 <sup>th</sup> → 1 <sup>st</sup> (+)

Source: Adapted from Portugal Outsourcing Association, "Portugal as a Nearshore Outsourcing Destination", 2012 Edition.

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