

CI&T: International Expansion

Abstract

This case aims to discuss to what extent a company from an emerging country, Brazil, can become a major player on the global software industry. It explores three major disadvantages of companies from emerging countries – *liabilities of foreignness, liabilities of outsidership and liabilities of smallness* – identifying how these limitations are overcome. In 2016 the company is far from having become a major competitor in global IT industry. To achieve that goal, it will have to speed up the internationalization process. The participant is asked to suggest alternative actions that will enable CI&T to make a significant leap in the process.

Keywords: Internationalization, Information Technology, Services.

Context

CI&T is an Information Technology (IT) services company based in Campinas, Brazil. It specializes in outsourcing, developing and integrating applications. In 2015 CI&T was present in Brazil and in five other countries: the USA (offices in New York, Philadelphia, Atlanta and Somerset, and San Francisco), England (London), Canada, Japan (Tokyo) and China (Ningbo). In 2010 the company was regarded as the most innovative company in the *Best Innovator* ranking, published by A.T. Kearney and the magazine *Época Negócios*, besides having placed 5th in the overall ranking for the award of the 100+ innovators in the use of IT, ITMídia and PWC in 2015, and first in the "Technology Providers" category. It was also ranked 68th in 2012 and 72nd in 2013 in the world rankings of the best providers of outsourcing services (*The Global Outsourcing 100*) of the international organization IOAP. The company has approximately 2,000 employees, with 200 located abroad.

Despite its accelerated growth and internationalization advancement, at the end of 2015 CI&T was still far from realizing its ambitions to become a globally relevant company in the IT industry. Therefore, the company's management was faced with the need to expedite the internationalization process, particularly with respect to activities to attract new and post-sale clients. On the other hand, the economic crisis hovering on the horizon at the end of 2014 would lead to a loss of dynamism in the Brazilian market in the coming years – one more factor to be considered to motivate the company to reduce its dependence on the domestic market.

Company History

In 1995, Cesar Gon and Fernando Matt, recent graduates in engineering from Unicamp, learned of a competition that IBM was sponsoring for a project. In order for them to participate, they received the support of professors from Unicamp, who assisted in the negotiations. Early on they were joined by Bruno Guiçardi, initially as the first employee, and from 1997 on, as a partner. He described the emergence of the company:

"CI&T was founded because of an opportunity that arose at IBM to compete in a project in which the two partners had expertise in the area. One of the partners was already working there under contract, and he heard about the opportunity. So he asked his manager if he could open a company to compete for the project. Would he consider us? He said yes. So we formed the company and won. That is how CI&T began: with that project."

The project was sophisticated in terms of technology and it involved IBM's laboratories in Brazil and in other parts of the world such as France and the United States, forcing CI&T work in an international environment from the start. With the good results it achieved with the first project, the company began growing and gaining ground at IBM. It had 30 employees in 1998. In that year, however, the IBM's Campinas Development Center, CI&T's largest customer, closed its doors. It was one of the effects of the crisis that hit IBM worldwide, forcing it to lay off employees and cancel contracts. As a result, CI&T had to reinvent itself, as Bruno Guiçardi explained:

"It was a huge crisis: the development center that had contracted CI&T shut down and fired everyone. But CI&T was born anew. I joke that, in 1998, CI&T was refounded. The company had thirty-odd employees, and in just one month 80% of its revenues, which came from IBM at the time, disappeared. We had to do something else: go to the market, for real. 'Let's learn how to sell.' So... it was a time of real learning. And we actually pulled it off. We managed to sell new projects; we didn't have to fire anyone; we were able to keep the entire team... And we began to grow a lot because, at that time, we put the company on the Internet, which was just starting out in Brazil. We directed the company to make systems via the internet, e-commerce, and business-to-business. And ever since then there has been a tradition at the company to always be ahead in terms of technology... It was really new at that time to talk about internet systems. The company specialized itself and tried to discover new technological trends in order to stay ahead of the market. We've been doing that ever since."

Their contact with IBM, a world leading company, made the entrepreneurs realize they had the potential to develop software with an international quality standard:

"So we got the idea that 'Wow, we can do even better than IBM!...' And what inspired us was that learning experience during the first three years. That's what created that little inner 'virus' that 'we can be an even better company than IBM; even better than the company that is considered to be the best in the world.' So I think it was those early years that created the perspective that the market is blind... The company was founded to really be a company that made a difference; that did much better than the market; that was one of the best in the world. And we are striving to accomplish this mission: being one of the best companies in the world in software development."

Hence, experience gave the partners confidence in their capabilities and it awakened their ambition to compete in the global market and not be restricted to the Brazil. Even so, from 1998 to 2003, the company grew only in the domestic market. It was only in 2004 that exports were initiated. That same year, it became a privately-held corporation.

Accelerated growth brought problems because the company had no structure to monitor its growth rate. As a result, it could not adequately meet delivery deadlines, which led to a reorganization of its structure. In an interview with a business magazine, Guiçardi recalled: "When we reached 300 employees, we underestimated the impact that a change of personnel and functions would have on the course of CI&T. We had no preparation or training. [...] It took us a year to get the place in order, but we assimilated the lesson" (*Haja...*, 2007).

The company received the backing of BNDES (Brazilian Development Bank) in 2005 with the issuance of preferred shares in the amount of three million reais and financing with another three million under the *Programa para o Desenvolvimento da Indústria Nacional de Software e Serviços Correlatos* (Program for the Development of the National Software and Related Services Industry) – Prosoft. In 2009 it acquired BI-One, a consulting services company for the implementation of analytical systems, with financial support from BNDESPar. In 2009 CI&T partnered with Google to offer smart computing solutions on a mobile platform. The results enabled the company to win an international competition to develop a system for Coca-Cola for the 2014 World Cup. In 2014 it was chosen Google Partner of the Year for cloud services and Gartner Cool Vendor. In March 2016 it received Google's award as the "Most Googley" company in the world. In 2015 CI&T announced

a partnership in the area of e-commerce with the multinational Hybris, an SAP company that provides e-commerce solutions using an omni-channel platform.

The growth achieved by the company displayed strong acceleration (Figure 1), mainly due to the contribution of funds from BNDES in 2005, which gave its international expansion a boost. In recent years CI&T's growth rate has been around 30% to 40% per year.

In million R\$

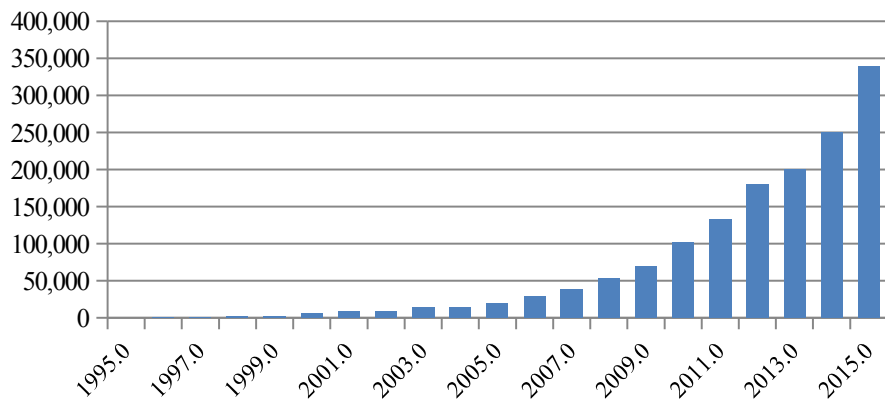


Figure 1 - Evolution of CI&T's Total Revenue

Source: www.anggulo.com.br/camp_tec/palestras/CiT-Polis_new.pdf (1995-2009 data); the data for the other years were obtained in press reports.

The IT Sector

In 2015 the global IT market was estimated at \$2.2 trillion, led by the US (727 billion), China (227 billion) and Japan (139 billion). Brazil is one of the world's major markets: in 2006 it ranked 13th internationally; in 2011 it ranked 10th; in 2012 it reached 7th before dropping to 8th in 2013 and 2014, but it returned to 7th in 2015, equivalent to a value in that last year of \$60 billion (ABES, 2016). The Latin American market in 2015 was US\$ 133 billion, with Brazil standing out with nearly half (45%) of the investments in the region, followed by Mexico and Colombia.

Referring specifically to the world market for software and IT services, the US had a share of more than 40% (Annex 1). The Brazilian market for software and IT services in 2015 represented a little over \$27 billion, with \$12.6 billion related to software and \$15 billion to services. The annual growth of software and IT services in Brazil has been in the double-digits in recent years. However, in 2015 growth was 9.2%, with 30.2% for software and 8.7% for services (ABES, 2015). Some of the most prominent areas of the Brazilian ICT sector are agribusiness, the aerospace and automotive industries, health, e-commerce, insurance, banking automation, fiscal and tax operations, among others. The financial sector is one of the most important, considered by the World Bank and the Gartner Institute as the most advanced in the world. However, Brazilian market share of software developed in the country is only 21.7%, whereas regarding services, 85.4% is developed in the country. Brazilian software exports in 2014 were estimated at \$245 million and those of services at \$680 million (ABES, 2016). Table 1 shows the main competitive advantages of Brazil in software and services.

Table 1 – Competitive Advantages of Brazil in IT Software and Services

Country Advantages	Industry Advantages
<ul style="list-style-type: none">▪ Low travel and communication costs	<ul style="list-style-type: none">• Low incidence of rework
<ul style="list-style-type: none">▪ High cultural compatibilidade	<ul style="list-style-type: none">• Low management costs
<ul style="list-style-type: none">▪ Time zone closer to the major markets (USA and Western Europe)	<ul style="list-style-type: none">• High productivity and knowledge of business
<ul style="list-style-type: none">▪ High productivity	<ul style="list-style-type: none">• Specialization in financial systems and manufacturing (ERP)

CI&T's Internationalization Process

Although CI&T had already appeared within the context of an international project, and the partners had an early desire to create a global company, it was only in the first few years of the 2000s that the company began looking abroad. The opportunity came with the appreciation of the dollar against the Brazilian currency, which enabled the company to become more competitive on the global stage. The partners knew then that they had good technical differential, together with low costs – ideal conditions for entering the international market.

Internationalization began initially by means of a company in California that had a Brazilian partner and an employee who had been an employee of CI&T. From the perspective of CI&T's executives, the company's concern with selecting and training the best professionals possible had generated a network of references, so that, in their new jobs, even employees who had left CI&T spread the word about the company's competence. That first contract, entered into in California, was an example of the situation.

"They had an employee who used to work at CI&T. He was someone who had left CI&T and had gone to the United States, and wound up working on that company's staff. And he was really good because all professionals from CI&T are really good. This client was impressed, found out about CI&T there, began to follow its activities, its cases, and felt confident to enter into that first contract." (Bruno Guiçardi)

Thus, a climate of trust was generated between the American customer and CI&T's personnel. The contract was signed via phone in 2004 to develop a project, worth around \$35,000, from Brazil. Seven more projects were closed in sequence, creating a portfolio of experiences that came to serve as a reference for the international market, which was essential to the continuity of exploiting the US market. All the projects were carried out remotely. Only in one of the projects was it necessary to send an employee to render on-site assistance.

The second international client was Johnson & Johnson. Initially, CI&T took part in a competition put on by J&J in Brazil. The fact that CI&T was meeting with success abroad enabled it to be considered for participation in the competition. And even though CI&T did not win – the multinational SAP was the winner – CI&T made a good impression in terms of technical expertise and technological pioneerism, leading to the appointment of CI&T's Brazilian subsidiary to J&J's US headquarters, which was looking for partners in Brazil to diversify its competence centers, concentrated till then in India and the US.

"We had suggested an innovative super solution to them [J&J]. However, they decided to go with SAP because they thought it was safer. But during the process, they were really impressed with CI&T. When J&J U.S. wanted to

build a development center in Brazil, J&J's people in Brazil recommended us. And then we received around eight or ten visits by groups of six to ten different people. A whole lot of people visited CI&T before we sealed the first deal. So everyone who came [from the US] to J&J Brazil during that six to 12 month period – that was how long the pre-sales took – also came to CI&T; we received a lot of people. Until someone there had the guts to make the decision and we signed the contract with Johnson... The original contract was miniscule: only a handful of people. We signed the first contract, the second, and then a string of them. The team kept growing until it totaled 300 people, five or six years later. Even now J&J is an active client" (Bruno Guiçardi).

Despite the size of the project, CI&T was not J&J's only supplier. CI&T had around 300 people connected with J&J, out of a total of four to five thousand people in J&J's IT department. In spite of the strong expansion of operations in the US, CI&T continued to develop projects remotely, without permanent employees in that country.

Since 1999 the company had been preparing to expand its international exposure. For example, in 2002 it created a website in English, not to sell but to develop its image and start contacts abroad. The site was registered in the US in order not to use the ".br" suffix. At the time, Cesar Gon, president of CI&T stated (Simões & Maia, 2002):

"It's not a sales space; it's mainly for contacts. Nowadays the Internet is an indispensable tool for receiving business proposals because it enables a company to introduce itself at a low cost and in a universal language. [But] all the deals sealed there counted to a greater or lesser extent on the support of the international website. [...] We use the internet to find new buyers, and when we do, we send emails to the company presidents and ask them to visit our international page. A company's page on the internet is its calling card for foreign trade."

One of the company's initiatives, which was also focused on internationalization, was to take part in creating the Act Minds consortium, which brought together ten companies in the software industry in 2005. In 2006 the consortium won the Apex Award for Excellence in Exportation in the Market Consolidation category due to its brand building efforts in the US, including opening a local office. In Guiçardi's opinion the consortium per se did not generate many sales, but it was an important tool for generating a greater understanding of the international market, particularly through participation at trade fairs.

At about the same time, the company hired a consultant to prospect the New York market. The consultant put the partners in touch with potential clients, but the initiative did not result in sales:

"The consultant introduced us to people he knew at some banks, including JP Morgan, Morgan Stanley, Merrill Lynch... We had a few conversations and... it was really disappointing. They would ask how many people worked

for the company and then came the response: 'Oh... well that won't work! We only deal with much larger companies; we don't contract with small ones.' We could see that for large companies the outsourcing game was a whole different ball of wax. So we decided to search for the market that would be the second wave of outsourcing: midsize companies, not large ones" (Bruno Guiçardi).

Thus in 2005 the company decided to open a branch in Philadelphia, Pennsylvania, to prospect more clients, and it became operational in 2006, initially using shared space. Hence it increased its presence in the US, not only with J&J, but with other companies such as Pfizer, Bayer, Roche, Filife, Cadence, Yahoo, etc. The initial choice was due to the fact that J&J was already in Philadelphia, but it was also based on a market study of the profile of the regional market, according to Guiçardi:

"The decision to go to Philadelphia was based on a market study that we bought. It showed that Philadelphia had one of the highest concentrations of mid-sized companies in the US. There were I don't know how many thousands of companies in the 100 million to one billion dollar range – not too big. We could do business with confidence. So it was a strategic hypothesis that brought us to Philadelphia – a hypothesis that in fact never materialized. Actually, with a few exceptions, we couldn't sell to midsize businesses here. We've always sold to large and small businesses... startups, highly technological companies just starting out. But we've almost never sold to medium-sized businesses. There's only one or two in the portfolio."

In addition, the state of Pennsylvania was strongly encouraging the IT sector, which provided potential access to incentive programs, a stimulating environment for innovation, and a supply of skilled labor coming from the leading universities in the region.

Creating a branch required a top executive, a company vice president. The creation of the American subsidiary made all the difference in the internationalization process, enabling its acceleration. For American Operations, CI&T called on highly competent employees due to the extreme difficulty of gaining the US market:

"Since the higher-ups – partners and directors – all had the opinion that, since it was a great opportunity, we had to mobilize our best minds. My team with me here today in the US – the same team that had been sent here over a number of years – is a "dream team," you know? They are real talents. At CI&T we have always believed we should put the best people on the best opportunities" (Bruno Guiçardi).

Later more offices in the United States were opened. The California office initially assisted the company's first client, but the client ended up having financial problems. However, the California office started serving others. Guiçardi explained: "It was a step by step strategy. We never opened an office in a place where we didn't have a client, a referral."

Guiçardi said that in the United States a key element for business opportunities is word-of-mouth, from a network of business relationships established by the company over the years:

"Our latest conclusion about what works here in the US is that it is really no different from how the IT business works in Brazil. We sell our services within a sphere of influence that we have established; that is, we can't sell to those who don't know who we are. That is why referrals are essential... So who have we managed to sell to here in the US? To organizations that have someone who has come over from a company that we have already served, or someone who needs some type of service and knows someone who has worked with us. It's a network of referrals. And that's how selling works. It's really hard – it does happen, but it's rare – to sell to someone who hasn't received a referral about us."

In 2006 C&IT opened a commercial branch in London in order to meet the European market. The office had only two employees and its function was purely commercial, doing a more passive work than prospecting.

The company's board thought that it was important to be present also in the Asian market. In 2009 CI&T formed a joint venture (CI&T Pacific) with a Japanese IT company – Rococo – establishing, by means of joint operation, a Tokyo office and a development center in Ningbo, China, where there are 15 IT universities graduating approximately six thousand experts per year. The development center serves clients in Asia.

"We felt there was an opportunity to expand our presence in Asia by relying on a few clients there, especially Johnson. So we proposed the idea to executives at J&J and they assured us they were interested since we were already a global vendor for them... We felt that if we were there, it might be possible to drum up business with the same clients; it would be simple to increase the amount of business with current clients in that new geographic area. So supported by Softex, we went on a commercial mission to find partners because we wouldn't be able to enter the Japanese market without a partner. We found a company that was interested and we stayed a couple of years 'dating.' A lot of reciprocal visits. And then we finally formed a joint venture with this Japanese company. The office is in Japan, whereas the development center is in China, because in that location [Ningbo] there are a lot of professionals with good training and competitive cost. And Japan is a more structured market... In fact, it is a back-to-back operation: an office in Tokyo and a factory in China. We see the operation as being just one operation" (Bruno Guiçardi).

Rococo Global Technologies, a partner of CI&T, was founded in 1994 in Osaka to develop software and manage IT infrastructure and applications. The company has around 300 employees. In addition to the headquarters in Osaka, it has

offices in Tokyo, Shanghai and Ningbo (China), and offshore operations in the Philippines. Guizardi stressed the importance of having a partner in Asia:

"Our sole partnership is at CI&T Pacific. We didn't think that we could do any business development activity without people with a lot of experience in the market. And it would be difficult to hire such people. So we preferred to partner with someone. Our partner is Japanese. But China's part – that was our responsibility to assemble... Our Japanese partner was in charge of business development and we were in charge of operations. So we had to build the operation in China. [...] Later on we saw that our assessment had been correct. Without the partnership with the Japanese, we couldn't have entered Japan. So it wouldn't have worked out; the affiliate wouldn't have sold one peanut. The locals wouldn't have agreed to do business if they didn't know we had a partnership with an established Japanese company. [...] Japan functions like a completely different world. American companies accept that fact, so the procedure works."

In 2009 CI&T placed 24th in *Valor's* ranking of the most internationalized Brazilian companies with 27% of their revenues, 3.4% of the employees and 16.6% of assets coming from international operations. In 2010 the company received 35% of its revenues from abroad, 88% coming from the US, 7% from Europe and 5% from Asia. In 2012, CI&T opened its second development center outside of Brazil, in Buenos Aires, Argentina, in order to serve the US market. The operation in Argentina was incorporated as a wholly owned subsidiary, without local partnership. One reason was the lower cost of software development in the country, but that would depend on variations in the exchange rate. Concerning CI&T's exports to the US, towards the end of 2012 20% came from its affiliate in Argentina and 80% from its headquarters in Brazil. As Cesar Gon stated, "On average, our costs in Argentina are still 20% lower than in Brazil. But the country used to be more attractive." There would be little room for expansion via exports to other Latin American countries: "Exporting to any other country in the region entails a 40% tariff. All Latin American countries are protectionists" (Drska, 2012).

In 2013 the company decided to increase its presence abroad and modify its global structure, with the intention of increasing the autonomy of each of the four regions where it operates: Latin America, North America, Europe and Asia. In each region leaders were appointed to act as chief executives, who relocated to their respective areas. According to Mr. Gon, it is necessary to maintain a local presence in the major markets. This is in keeping with the business model of the company, which delivers its services from development centers located in strategic areas of high competence and low cost (CI&T, 2014).

In 2014 CI&T projected a new cycle of growth of more than 20% per year by offering value-added services and establishing new levels of performance in new international operations. In 2015 the company held 31th place in the FDC internationalization ranking index of Brazilian multinationals (FDC, 2016).

Specifics of CI&T's Internationalization

CI&T works with two concepts:

- Nearshore, i.e. providing services in neighboring countries, with the expectation that it will benefit both partners that have some kind of proximity: geographic, cultural, linguistic, or time zone; and
- Lean IT – a lean production model created by Toyota in the automotive sector, with a focus on gains in speed and reductions in costs.

In the nearshore model, the number of employees at each foreign location is reduced: only the number of employees required to run business processes or those requiring more interaction with clients. The technical processes of systems development are located at competence centers, in areas that maximize the binomial low cost and a good supply of skilled labor, and which are close to clients. In an interview with *Valor*, Cesar Gon, president of the company, explained how the system works (Drska, 2012, p. B5):

"CI&T's idea is to build a network of small global centers to serve its clients in a more personalized way. With a leaner structure, closer to clients, you can get a better understanding of the needs of each business and make a counterpoint to the standard model of Indian companies."

This model has been adopted in the IT industry since it started to identify a number of problems with the offshore model, especially for Indian companies, with regard to time zone and even cultural differences. The need for development centers closer to end clients (in terms of both time zone and cultural differences) – nearshore – is used as a counterpoint to the Indian strategy, and has been successfully employed by CI&T.

One of the means the company uses to effectively reach more potential clients is by using market analysts, with support from the agreement between Brascom and Apex. Companies like the Gartner Institute and Forrester are opinion leaders in the IT industry and are more easily listened to by American executives. CI&T has sought to participate in international rankings as a way to attract attention and become a benchmark in the global market, in addition to obtaining new business opportunities (leads). Guiçardi noted: "This generates leads; it has already generated several leads from reports issued by Forrester and Gartner." The company also participates in trade fairs, but usually only when it is entering markets that have not yet been exploited. The fairs also function to get more business opportunities:

"These events generate leads. You can be at the event and talk to lots of people. People hear a testimony by a client of yours, and that generates a conversation... We haven't closed any deals at the most recent events we participated in. But we have several open leads because of them. They'll end up generating business someday."

Another promotional tool highly valued by the company in the markets where it operates is to have a Public Relations (PR) advisor:

"Our marketing budget doesn't include advertising. Our biggest return on investment is in PR. In Brazil people think that CI&T is a lot bigger than it actually is because of all the 'noise' it makes. That's the result of successful PR. It's cheap and more effective... but you need to have stories to tell. And thank God, CI&T does have stories to tell. But if you have stories to tell, it's much better to pay for PR than to pay for advertising. We always focus a lot on PR in both the US and Brazil. We are now also starting in Japan."

Although it had used market research at first, the company does not consider such research to be very useful. It places a higher value on knowledge gained through experience in the country, as Guiçardi revealed:

"At first, we bought a lot of market research. But in the end we saw that there was nothing that could replace the knowledge and skill that the company is creating with its on-site presence, being right there; you know? So we've developed a certain prejudice against market studies. The best advice I can give Brazilian business people is: stop doing market research and get there. Or you can decide to jump into the pool, and not get there."

Dealing with international markets, especially in developed countries – as is the case with CI&T – entails the need for constant evolution. Monitoring progress in the area of software in the fast pace of the US is an essential task, which, although difficult, also provides benefits and domestic sales. Moreover, there are cultural challenges. For example, the way Americans negotiate is considered to be very different than the way it is done in Brazil. US executives are not available for meetings with the same ease as Brazilians. Also in conducting meetings, you have to learn to communicate more directly.

Subsidiaries are given substantial independence for business development, according to Guiçardi:

"Typically, the subsidiary signs the contract with the local company. For example, here in the US we have a branch and several regional CI&T offices. So the American CI&T signs the contract with the local company. And then CI&T Inc. contracts CI&T Brazil to provide the service. That's how it's done all over the world. CI&T Japan signs the contract with a Japanese company and then CI&T Japan contracts CI&T China to do the project."

Prices are usually established taking desired costs and margins into account. A major obstacle has been the currency fluctuation, because it affects the competitiveness of the company overseas. Guçardi commented:

"The biggest challenge in the beginning was the awareness that Brazil could supply software. And then, in recent years it has been the dollar, which is a ruthless executioner. It fluctuates, which is very bad for the stability of operations. We've lost a lot of competitiveness with the falling dollar. It's now rising again, but no one knows where it's headed. This instability of the dollar is cruel. [...] We've tried to renegotiate a price, but renegotiations in the United States are really harsh. You just can't up your price by 20%. Americans don't understand: 'A 20% increase; are you out of your mind?'"

Future perspectives

CI&T's presence abroad is seen as fundamental, as Guçardi pointed out:

"For the company, our perception of the worth of the international arena has changed. It is the source of innovation for CI&T as a whole. Innovations have come from it: innovations of delivery, competitiveness, tools, methods... That's where everything comes from and where it also ends up – using and implementing for clients in Brazil. This change in perception has occurred over time. In the United States, the main benefit we got was in gaining a competitive edge. That is the main benefit I see for CI&T. It has to stay ahead of the game; be continually challenged from the competitiveness point of view. The US market is absolutely more competitive than Brazil. So we have to bring that competitive edge to the company, not only in the US, but worldwide."

The company's plan for the next years involved maintaining the upward trend of recent years, despite the economic crisis in Brazil. It also intended to keep a third of its workforce abroad to serve the US and Japan markets (CRN Brazil, 2014).

Regarding the future, Guçardi noted:

"CI&T is a really ambitious company. We believe we can be one of the best companies in the world at what we do. So it's our desire to show that competence, to prove that mission, to win the game here, win the game in the US, win the game in Europe... wherever the game is being played. And we have a complete strategy, a complete statement, which is, 'We are the best.' Our model is different; it is better than India's model. It is a different and better model."

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Annex 1

Principal World IT Software and Services Markets – 2015 and 2006

2015				2006			
No.	Country	Worth (US\$ billion)	Share%	No.	Country	Worth (US\$ billion)	Share%
1	USA	470	41.8%	1	USA	303	42.5%
2	UK	83	7.3%	2	Japan	64	9.0%
3	Japan	77	6.9%	3	UK	56	7.8%
4	Germany	67	5.9%	4	Germany	48	6.8%
5	France	48	4.3%	5	France	39	5.5%
6	China	34	3.1%	6	Canada	21	3.0%
7	Canada	32	2.9%	7	Italy	18	2.5%
8	Brazil	27	2.4%	8	Australia	13	1.8%
9	Australia	24	2.1%	9	Netherlands	12	1.8%
10	Italy	21	1.8%	10	Spain	10	1.5%
11	Netherlands	21	1.8%	11	China	10	1.3%
12	Spain	18	1.6%	12	Switzerland	9	1.3%
13	India	13	1.2%	13	Brazil	9	1.3%

14	South Korea	11	1.0%	14	Switzerland	9	1.2%
15	Russia	10	0.9%	15	South Korea	7	1.0%
16	Mexico	10	0.9%	16	-	-	-
17	Hong Kong	3	0.3%	17	-	-	-
Other countries		155	13.8%	Other countries		84	11.8%
Entire World		1.067	100.0	Entire World		714	100.0

Source: ABES (2016, p.8); Gutierrez (2007). Both sources utilize IDC data.

Teaching Notes

Objectives of the case

This case aims to discuss to what extent a company from an emerging country, Brazil, can become a major player on the global stage of the software industry. The case explores the three major disadvantages of companies from emerging countries – *liabilities of foreignness*, *liabilities of outsidership* and *liabilities of smallness* – defined in the literature, and it identifies how such limitations are being overcome through specific strategies by the company. It is meant for graduate courses in Business Administration and Strategy and International Business courses.

Questions for Discussion

The following questions are suggested for classroom discussion:

- What is the strategic problem faced by CI&T's directors? What is your assessment of CI&T's strategic ambitions? Do you consider such ambitions feasible? Why or why not?
- What are CI&T's competitive advantages and disadvantages for achieving its long term goals?
- Do an analysis of the internationalization strategy adopted by the company to date. What are the input modes used by the company? What is the rationale behind the adoption of each one of them?
- How would you evaluate CI&T's internationalization decision-making process?
- In what ways has the company used social networks to enter the international market?

- What are the main facilitators of the internationalization process?
- What recommendations would you make to the company's management?

Case Analysis

Strategic Problem

CI&T still needs to grow and expand internationally before becoming an important competitive player globally. Among the factors that drive the company to strive for a worldwide presence are:

- (i) the founders' desire from very early on to build a global company;
- (ii) the difficulties arising from Brazil not being recognized in the international market as a software producer, or not having an image associated with high tech, which makes winning multinational clients difficult;
- (iii) the understanding that the company's international presence, particularly in highly competitive markets, places it at the forefront of technological trends in the industry, making it internationally competitive;
- (iv) the need to follow major clients, not only foreign multinationals (such as J&J), but also Brazilian companies which have become international. Even with all the technological advances and with products that can be developed and delivered at a distance, the company's presence in the foreign country where the client is can make all the difference in terms of customer service, prospecting the market, etc. In addition, its presence in the market enables it to acquire experiential knowledge, which it could not do otherwise, and which is critical to the success of any business in foreign markets;
- (v) the need to reduce dependence on the Brazilian market, given the strong exchange rate fluctuations, which affect the company's competitiveness. In particular, the overvaluation of the Brazilian real against the dollar through 2014 made it difficult for the company to compete with international competitors in terms of cost, but this reality changed towards the end of 2014, opening up new prospects for exports of software and IT services from Brazil.

CI&T's Competitive Advantages and Disadvantages

The competitive advantages of CI&T can be analyzed both from the perspective of the advantages of the country (in this case, Brazil) and from the company itself. For a discussion of the country's advantages and the advantages of Brazilian firms in general, we suggest the use of Table 1 above. Also regarding the problems associated with Brazil, it is important to highlight the currency issue, which merits discussion. The exchange rate problem is inherent to international business, but Brazilian entrepreneurs have been facing strong variations in the dollar exchange rate in relation to the national currency, a fact which makes unviable the competitiveness of entire industries such as footwear and furniture, where price is a fundamental factor for competition. However, towards the end of 2014, the devaluation of the real against the dollar occurred, which automatically increases the competitiveness of Brazilian companies abroad.

The country-image issue is particularly important in the internationalization process of Brazilian tech companies because Brazil is seen to be rich in natural resources, but low in technological know-how, although this image may have begun to change, starting in the years before 2014, a time when Brazil's image developed on the world scene. Regarding this matter, any change depends on institutional and governmental action in foreign markets. The measures taken by the CI&T to overcome this difficulty included partially disassociating its image from that of Brazil, upon establishing subsidiaries abroad.

See the following table regarding the analysis of CI&T's specific advantages and disadvantages when compared with international competitors.

CI&T's Main Disadvantages	CI&T's Main Advantages
<ul style="list-style-type: none"> - <i>liabilities of foreignness</i> - <i>liabilities of outsidership</i> - <i>liabilities of smallness</i> 	<ul style="list-style-type: none"> - Management's belief in the company's growth potential - Management's strong desire to make CI&T a global company - Accumulated experience in the internationalization process - Ability to develop business networks

The three disadvantages (*liabilities*) are particularly interesting and can generate good discussion in the classroom. We suggest the works of Johansson & Vahlne (2009, 2013) as the main reference to support discussion. The term *liabilities of foreignness* can be translated as liabilities arising from being a foreigner, and it includes unfamiliarity with market

characteristics, business practices, etc. in a foreign country, compared with rival companies already operating in that market. In its turn, *liabilities of outsidership* refers to not belonging to existing business networks in a given country. Finally, *liabilities of smallness* refers to company size.

Note how CI&T handled these disadvantages: (i) by focusing initially on small and medium enterprises as clients in order to overcome the *liabilities of smallness*; (ii) by hiring consultants and doing market research in order to overcome the *liabilities of foreignness*; (iii) but, above all, by inserting and developing business networks for its international operations in order to overcome the *liabilities of outsidership*.

The first two strategies adopted were changed later. First, because the clients it managed to acquire ended up being either small or large; second, because its business networks demonstrated greater importance both in the US market and in Japan. Unfamiliarity with the way of doing business in each country could only be overcome by means of knowledge acquired in the market – experiential knowledge – as recommended by the Uppsala model (Johanson & Vahlne, 1977). The use of networks enabled the company to build its reputation in its markets. At first, the fact that it already had good examples of projects developed with the client from California led to the first contract with J&J. Then, CI&T used J&J and projects from Brazil as a reference. Success in serving J&J leveraged sales, both within J&J's own network, and in networks of other companies from various sectors. Another way to break the barrier of unfamiliarity in the market was the one CI&T used in Japan by forming a joint venture with a company that already had a client base in that country.

Strategic Decisions in the Internationalization Process

Different input modes due to the characteristics of the markets – CI&T used four main forms of internationalization, combining them creatively: internationalization by utilizing the network of a multinational (J&J); internationalization by opening offices abroad (US and the UK); internationalization by opening development centers (software factories) abroad (Argentina and China); and internationalization by means of joint venture (Japan). The input mode and trajectory in each market vary due to the country's characteristics and the role assigned to the branch at the time. Very different cultures

require partnerships; countries with free competition, less bureaucracy and similar culture are more hospitable to entrepreneurs.

Planned decisions versus emerging decisions – Also regarding other decisions involved in the internationalization process, CI&T opted for a contingency model. Until 2013 decisions were made based on the opportunities presented, without a formal, long-term strategy. These decisions have a step-by-step character, and are made as events play out (Johanson & Vahlne, 1977) and by means of effectuation, i.e., decision-making in an emerging way (Saravsthy, 2001). The example of CI&T's entry into the US does a good job of illustrating the step-by-step process, as well as decision-making based on effectuation.

The use of networks in internationalization – CI&T actively used various types of networks to expedite and facilitate its internationalization. The most important network for the company's internationalization was J&J's, which served for initially accessing both the US market and the Asian market. In the use of these social networks, it becomes clear that investing in small contracts with large companies can leverage new business, both within a company's network and with new clients. Furthermore, the company established its own network of relationships (and references) in North America by successfully providing services to clients. In fact, the importance attributed by the company to business networks meets the propositions supported by Johanson & Vahlne (2009, 2013). Finally, the company's former employees became a valuable asset as sources for referrals.

Facilitators of Internationalization for CI&T

- The fact of providing services to J&J, which has a network of businesses spread geographically all over the world, was certainly the largest facilitator for expansion both in the US and Asia.
- The company's operational characteristic, which allows it to use much of the workforce in other countries – such as China and Argentina – with more affordable costs, ensures a competitive advantage for CI&T.
- The quality of the personnel trained by CI&T, which eventually generated referrals to other companies.

- With support from Apex and Brascom, participation at trade fairs and conferences, and access to opinion forming enterprises in the IT industry (Gartner and Forrester) helped spread the company's name in a positive way in the markets of interest.
- The allocation of resources by BNDES in 2005 allowed the company to obtain the funds needed to accelerate its growth, particularly through internationalization.

Timeline of CI&T's Internationalization

Year	Event
1995	Founding of CI&T; beginning of the project with IBM
2001	Creation of the international website
2004	Contract with a company in California
2004	Contract with Johnson & Johnson
2005	Decision to open a subsidiary in Philadelphia
2006	Opening of offices in Philadelphia and London
2009	Joint Venture in Japan and opening of a competence center in China
2012	Opening of a competence center in Buenos Aires
2013	Reorganization of the international framework
2014	Emphasis on international expansion

Recommendations

For the company to achieve its long-term goals, it is essential that a strategic internationalization plan be developed and specific goals established. In particular, the strategy to be adopted by the company should take into account the expansion of its international operations, reducing, in relative terms, the share of earnings from Brazil. Participants should be encouraged to propose bolder steps that take the company beyond the gradual and cautious internationalization that has been its hallmark so far and to discuss to what extent such bold decisions would involve excessive risks for the company. However, it should be clear that, without being daring, the company cannot fulfill its founders' dream to become a globally relevant company in the IT industry in the near future.

Methodology for Case Development

The case is based on primary and secondary sources. The primary sources were three interviews conducted with company directors between 2013 and 2016. The secondary sources were documents provided by the respondents, information on the company website and the internet, and articles published in newspapers and business magazines.

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