NAO International (Spain)

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NAO INTERNATIONAL[1]

The Triggering Event

It was a Monday morning like any other. The summer of 2010 was approaching and Carles, founder and chief executive officer of NAO[2], was sitting in his office seeking alternatives to regain the 30 percent lost in revenues that the company was facing. In August 2009 Presscut, NAO's biggest customer, announced to Carles that they would cut down the use of NAO's services with the objective of substituting them completely in the mid-term. NAO could not afford to lose these sales and its main distributor in Spain. Carles was falling short of ideas when Antoine Legrand, from the newly established exports and international department, knocked at his office door. Antoine entered Carles' office saying:

> *"Sorry to interrupt you Carles, I have good news! Allopress, the French press clipping company, wants to buy our database!"*
>
> *"That is indeed good news Antoine! Do they want the complete news database or are they willing to buy categorised information? They might be also interested in our web-platform solution to cover online media."*
>
> *"No Carles, they are just interested in having unlimited access to our online news database!"*
>
> *"Did they ask for some kind of sales exclusivity?"*
>
> *"Oh yes! They want full exclusivity for France, Luxembourg, Andorra and the French part of Switzerland and Belgium."*

A short silence ensued. Selling unlimited access to NAO's database meant that Allopress would not ask for more value-added services, like the categoriser or the platform, in the future. Furthermore, giving full exclusivity to Allopress meant that NAO would be limiting its services to the rest of the markets in France and the other French-speaking countries and regions in Europe. Carles knew that this was not good for the future sales of the business. In the short-term, if NAO sold Allopress unlimited access to its database the company could compensate for the lost of Presscut's sales; but in the long-run NAO would not be able to sell any other service in all of these regions of Europe. After a short reflection, Carles said: *"Hum … in that case; I'm not sure about how good this news is, Antoine."* Carles was now even more confused as to their future strategy and once again began to reflect upon the options available to NAO.

The Background

News Aggregator Online, S.L. was founded in Girona (Spain), in June 2000, by a group of young university graduates in the field of industrial engineering. Over the past ten years the company had developed an advanced system for tracking, classifying, managing and distributing digital information, combining the most innovative technology with journalistic experience. In practice, NAO was an intermediary operating in the online news industry, also called a Web Content Aggregator. NAO delivered aggregated content to distributors and gave control to the subscriber. All of its services were subscription-based and targeted to the Business-to-Business sector. In exceptional cases, NAO had also licensed its technology for certain applications. At present, NAO was monitoring over 50,000 online publications that generated about 500,000 news feeds per day.

The functioning of NAO's technology could be summarised into four different steps: 1. Search/track and capture; 2. Categorisation/index; 3. Customise and manage; 4. Integration (reference Appendix One for a graphic description of NAO's technology). Firstly, NAO's robots tracked relevant real-time information from an extensive list of publications in real time. The editorial staff carefully analysed and ranked each source for content quality and depth. New sources were continually added and refined based upon client requests and the changing online information landscape. Secondly, powerful filters enabled businesses to tailor feeds based not only on the type of source, but also on content. Once the information was categorised, NAO offered a management interface to customise all of the options of the service: edit, delete or introduce keywords, languages, sources of information, type of content, etc. Finally, NAO provided a full list of integration options, including JavaScript, XML, and RSS.

In the early stages of development, NAO focussed on offering aggregated content into customer's applications, such as websites, intranets, mobile phones and enterprise portals. Customers would pay a monthly fee depending on the number of sources covered and the number of final users that received the aggregated content. All of these services were targeted to meet the needs of those websites trying to avoid the so called 'Empty Portal Syndrome' (lack of updated content in their pages). This was the first service that NAO started commercialising in February 2002 (reference Appendix Two for the detail of NAO's product lines).

NAO's value chain could be divided into four parts: 1. Creators (write the news); 2. Online news aggregators (like NAO); 3. Distributors (they distribute the news to the final customers); 4. Final customers (reference Appendix Three for a graphic representation of the value chain). Moreover, NAO's market could be divided into three targets groups: 1. Press clipping companies (big distributors); 2. Communication agencies (medium or small distributors); 3. Firms (any professional organisation, but particularly those with a communication department). Appendix Four highlights the pyramid representing NAO's customer segments.

The Development of NAO

In 1999 Marc was working as assistant professor at University of Girona, doing research in the field of Electronic Commerce and e-Business. At that time, Carles was still finishing his master's degree and working part-time as a freelancer, developing websites. Carles introduced Marc to a very interesting project he had been implementing in his previous job. It was a music magazine's website, that after six months of operations had run out of money and the owners could not afford new articles. These owners (David and Josep), who were well-known journalists, asked Carles to create a robot (an advanced software system) to track, capture, and classify news from other music portals and to integrate them in their music magazine's website. This robot would search the main music portals in the internet for news and articles related to music events. Then, it would classify and integrate those news items and articles in the main page of their music magazine.

Marc and Carles realised that they had to involve more partners to successfully develop their project because their main competences were in technology, not business. They needed partners with marketing, financial, and journalistic backgrounds and experience. While the entrepreneurs started to write down their business plan, they also began to look for partners to complement the team. After several presentations, discussions and negotiations, they were able to involve a marketing consultancy business (offering marketing expertise and funding of approximately €36,000) and the two journalists, David and Josep, who first proposed the idea to create a robot. The company was officially launched on the 29th of June 2000 by the public notary. While they were legally establishing the firm, they found a 60 squared-metre cheap office in the centre of Girona to rent.

Immediately after the creation of NAO, Marc and Carles had to face the first redefinition of their business. They changed their initial plan of offering a free news portal to end users because advertising fees were exponentially declining[3] and as a result they could not earn

enough earnings from this revenue model. Therefore, they focused instead on providing content to websites, intranets and extranets. Based on subscriptions, websites would pay a monthly fee for a continuous flow of aggregated content in their websites. Interestingly, NAO had already an order before the launching. This order came from one of the visits that Marc performed in the previous stage and it became a sort of beta-tester for NAO's services.

An order that came from Presscut in November 2002 and the frequent meetings held to coordinate the integration of aggregated content to Presscut network of websites drew the attention to a new service that many Presscut clients were demanding: online press-clipping services. This fact led to the second and most important redefinition phase of the NAO business model. NAO founding team realised that their technology could be applied to offer a service that they had not thought of at the beginning: press-clipping services to documentary departments. In Spain, this sector was worth over €60 million in sales per year. In addition, Presscut had over 20 percent of this market, TNS another 20 percent, and the rest of the market was highly fragmented. Within five months, 25 percent of NAO's sales came from this new online press clipping service. By May 2003, NAO had already reached the monthly break-even and it also received a first bid from Presscut to buy a part of its equity. For Presscut, NAO had already become a strategic issue. From mid-2005 to the beginning of the export phase, NAO began to capitalise on the marketing actions implemented previously. This led to almost the doubling of its sales from 2005 to 2008 (reference Appendix Five).

In 2008, NAO started their first steps in the internationalisation of the business, prospecting the French and Italian market. In 2009, NAO signed its first international customer in Italy, and in February 2010 Carles hired Antoine Legrand, the sales agent responsible for the international market. Antoine was presently analysing several European market opportunities to sell them NAO's technological solutions. Appendix Six identifies the timeline of NAO, highlighting the main events in NAO's development, focusing on the internationalisation of the firm.

Starting to Export

At the end of 2006, the Spanish market of online press clipping services was starting to become saturated. NAO was already serving 100 percent of Presscut online press clipping customers. In turn, Presscut was also selling press clipping services to communication agencies. The second biggest player in this industry, TNS, was tacitly forbidden as a customer due to the agreement with Presscut. In addition, communication agencies were willing to buy

a pack of aggregated news from all media: TV, radio, web and paper press. The bottom of the pyramid (final customers) was difficult to reach because of the lack of commercial resources and the significant acquisition costs that usually exceeded the revenues of a whole year of sales of a single customer. Therefore, NAO was starting to look for markets outside of Spain as an alternative to this saturated market. The close neighbours of Italy, France and Portugal were the first countries to be analysed. Furthermore, Carles was convinced that NAO's services were easily exportable. NAO's searching, classifying and delivering technology could be used in several languages. Carles also thought that NAO's technology was similar or even better than the ones offered by other content aggregator firms in Europe. In December 2006, one medium-sized customer from Girona asked NAO to translate its web platform into Catalan. This was something totally new for Carles because until then the application was only developed in Spanish. This project was a complete success.

In 2007, Presscut was still interested in buying NAO, but negotiations were long and they did not seem likely to reach an agreement. Presscut was making an offer that NAO's shareholders considered not to be in accordance with the revenues stream and the potential of the company. Presscut's offer never exceeded €600,000 when NAO's 2007 revenues were almost €540,000. Presscut was unhappy about being refused as a shareholder since 2003 and wanted some kind of compensation. Soon they started to demand sales discounts and extra services free of charge from NAO. Presscut also started to delay their payments for NAO's services.

Considering the difficulties of the saturated Spanish market, Carles thought that one possible solution to NAO's risky situation was the internationalisation of the company. Carles also knew that NAO's service was easy to export and adapt to foreign markets. In fact, the structures and resources needed to run the business were almost the same if NAO stayed national or became international. In addition, NAO's marginal costs were almost zero. In this sense, NAO only needed to be able to afford the sales and marketing costs of exporting.

The Obstacles

One of the main problems that NAO faced was its lack of commercial capabilities and experience selling abroad. Neither Carles nor the rest of the team had the skills needed to properly assume the role of international sales manager. At the national level, NAO had a very good sales manager but who did not speak any foreign language and did not have any international experience. Thus, when Carles first approached COPCA[4] at the end of 2006, they said that NAO needed to improve its commercial capabilities before receiving any

support from COPCA[5.] Eventually NAO made the necessary efforts and changes in order to obtain COPCA's support.

In reality, if NAO wanted to export abroad, it had to seriously consider a change in its staff. Most of NAO's employees were born in Girona and did not travel much outside Catalonia. Just a few of them spoke some English and none of them had international business experience. NAO was far removed from the profile of a typical international service company. Another important obstacle was its technology bias. Carles always wanted to develop a firm that provided technological solutions to technology providers. He wanted to develop a technology-based company, not a service firm. As a result, he might have left customer's services relatively unattended until this time. In this sense, NAO was not at all prepared to deal with international customers requiring more services than just an online news database without added-value. So, Carles had to decide whether NAO should have a focus on technology or on customer service.

Even if the translation of the software was not a big issue in the internationalisation process of NAO, capturing online news in new languages required the knowledge of multilingual documentaries and international journalists. At that time, NAO covered more than 2,000 online media sources in Spanish but less than 50 in Italian and just a few in French and Portuguese. Carles knew that if he wanted to sell something in non-Spanish speaking countries NAO would have to incorporate many more new sources in other languages. According to Carles, NAO should at least offer the basic coverage of the most relevant online publications in France and Italy. Furthermore, covering more publications implied that NAO had to capture, store and deliver more content. NAO offered an online news database extracted from the Internet where customers could gain access to any news feed published since 2001. This massive amount of information forced NAO to invest in its database management systems, data-storage and hosting facilities in several countries.

Another issue that affected its internationalisation process was the different legislation on intellectual property rights (IP) regarding the news. In some countries, like Spain, online content aggregators do not pay royalties to news providers. In other countries, like Germany, there is a much more restrictive IP laws that require content aggregators to pay royalties to news providers. As a result, NAO would have to pay attention to national IP laws before selling its services in these countries. Furthermore, NAO lacked the necessary financial resources needed to prospect foreign markets or hire qualified personnel. Carles did not have

much time to undertake market studies and NAO could not afford to hire a marketing research firm.

The Markets

The next step in the internationalisation process was to select the right country to enter. This was a delicate matter and if Carles made a wrong choice NAO would lose momentum in prospecting many markets. There were several issues to take into consideration when selecting the best foreign market to penetrate: size, proximity, competitors, IP laws, potential customers, and economic conditions, among others factors. To help offer some guidelines, NAO's staff did an accurate analysis of several markets worldwide. For example, Portugal was a less developed market in terms of available technology and competitors, it was rather small, and prices were much lower than in Germany, Italy or France. Thus, Carles rejected this market for NAO's international expansion. Latin America (LATAM) was another market that was dismissed by Carles. In this case, the size of the market was large enough, especially Brazil, but the business uncertainty and in some cases a turbulent political and social climate, made Carles reject this prospect. Again, like Portugal, NAO's technology was at the very edge compared to what was available in Latin America at that time. Meanwhile, Germany and Scandinavian countries gave full rights to the authors of the news, and so if NAO wanted to collect and sell online news in these countries, it would have to pay the authors. At the same time, Carles also dismissed the idea to target the UK and USA because of the high competition already present in those countries. Finally, Carles came to the conclusion that France and Italy were the most promising countries to penetrate. Both were substantially big markets with higher prices than in Spain. In addition, they were close to Catalonia culturally and in proximity. Besides, the languages of the French and Italian were not that different from Spanish or Catalan.

Getting Resources

In the beginning of 2007, after weeks of completing forms, presenting NAO's business plan and going to endless meetings with COPCA's officials and consultants, Carles finally obtained COPCA's support. COPCA offered NAO a business coaching programme (called the Alpha Programme) to enable NAO to internationalise. The programme consisted of a coaching service to help NAO establish a plan for the internationalisation of the firm. In the following months, NAO received the visits of one of the COPCA's consultants. Carles specifically asked COPCA for the services of this experienced consultant; however, NAO found this coaching process was slow and difficult. COPCA's consultant realised that NAO

was not yet prepared to become international. In the coach's opinion, NAO had to change its strategy and hire qualified staff to face the internationalisation adventure.

Following this advice, Carles decided to hire a salesperson with international experience that spoke French, Italian, Portuguese and Spanish. This recruitment was possible thanks to an internationalisation grant given by COPCA consisting of one-year's salary of an international salesperson, including a budget for trips, brochures and commercial actions. In Carles words:

> "*COPCA was the kick-off for the international match NAO had to play...we now had the resources and the strategy to attack international markets*".

It was time for action and Carles could not wait to begin!

The Internationalisation Process

The new staff member recruited as international salesperson had worked in an import-export company and could speak several languages, including French. After training him on NAO's technology and services, he and Carles went to Paris to visit potential customers. This trip to France was an important step towards the internationalisation of the company. Carles knew that this was the starting point for future commercial international agreements but he was not sure about the strategy to follow. Actually, Carles fully counted on the experience and commercial capabilities of the newly hired salesman. In the first meeting, Carles was astonished. The salesman did not speak any French and barely understood the language. Carles was really upset with this lie and had to fire the salesman. In Carles words:

> "*In France you have to speak French in order to do business. I couldn't believe that the salesman did not understand what the customers said to us. I was really embarrassed during those business meetings.*"

At this point, Carles had to improvise. He called the NAO's office in Girona and asked for a complete list of press-clipping companies and communication agencies available in Paris and the surrounding areas. Within two days Carles reached, by telephone, every press-clipping company and some of the communication agencies in Paris. With a lot of effort Carles arranged several meetings with different potential clients in Paris and its surroundings. However, during these meetings Carles could not fully explain nor convince potential buyers about the advantages of NAO's products and services. In addition, Carles also realised that NAO's technology was not as new and innovative compared to what was available on the French market. After these meetings with potential customers, he was shown some French companies that offered similar services with even better technology. This was a considerable set-back for Carles, but he was positive that NAO's technology was good enough to compete

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in the French market. From this first approach to the French market, NAO did not get any commercial agreement, but it was a beneficial experience as Carles explained:

> "*Look, we didn't get much from that visit to Paris but at least we learned a lot from the way French people do business and from the technology they were using. We also came back to Catalonia with a good set of business contacts*".

It was a difficult but beneficial learning experience for himself and for the company.

Carles decided to take responsibility to target the Italian market, as it was very difficult for NAO to find qualified staff with international sales experience and technical skills willing to live and work in Girona. This was actually one of the biggest obstacles that the company was facing in order to realise their first foreign sales. In Carles words:

> "*I did not want to lose time again looking for someone to take over this responsibility. I think it is better to try myself directly and adapt while doing.*"

In this sense, the strategy to explore the penetration of the Italian market was mainly trial and error and following this strategy of learning by doing, Carles went several times to Italy. From late 2009 to the first quarter of 2010, Carles visited a list of potential customers obtained from an international press clipping association. The company had to pay for this list of prospects but it was worthwhile buying it. Carles had a schedule of programmed visits but most of them without the consensus of the companies' managers. As Carles explained:

> "*It was time to jump into the pool hoping for the water to be deep enough*".

By the end of April 2010, Carles visited nearly every big press clipping company in Italy. Moreover, while travelling through Italy he realised that IP laws were not an issue and that the level of technological development was far behind NAO's capabilities. According to Carles:

> "*After going to France, it was comforting to see the reaction of potential customers in Italy when presenting our technology. I have to say, that Italian press clipping companies were really impressed with our web content aggregator technology. This became our favourite selling point when entering the Italian market.*"

During one eventful trip, the biggest and most important press clipping company in Italy, Italiaclip, wanted to buy full unlimited access to NAO's online news database. Italiaclip would classify, manage and distribute the online news to their final customers (public and private organisations). Additionally, Italiaclip asked Carles for the exclusivity of the database in Italy, which meant that NAO would not be able to sell the database to any other press clipping company in Italy. But Carles also knew that Italiaclip would never ask for more added-value services. They signed a deal for €72,000 per year for unlimited access to NAO's

news database. The credibility and the experience gained from doing business with Italisclip encouraged Carles to continue with NAO's internationalisation strategy.

Re-entering the French Market

After the successful Italian experience, it was time for NAO to go back to France. This time Carles wanted a reliable and experienced international salesperson who could actually speak the language and had experience in local business habits. After a long and tiring recruitment process, at the beginning of 2010, Carles selected Antoine Legrand who had, in Carles' opinion, the necessary skills to be responsible for NAO's international area. Antoine Legrand was French, spoke several languages and had a degree in business management and computer science, with some years of international experience working for a global manufacturing corporation. Antoine seemed the ideal salesman for NAO. Carles and Antoine decided to go back to France to visit the most important press clipping companies in the country. First, Antoine would call the potential customers to gather whether there were interested in such a service. Then, Antoine would send a file with a detailed presentation of NAO's services. A week later, he would call the potential customers to clarify any doubts they might have and then he would set up a personal visit. Finally, he and a technician would go to France for an on-site demonstration of NAO's technology.
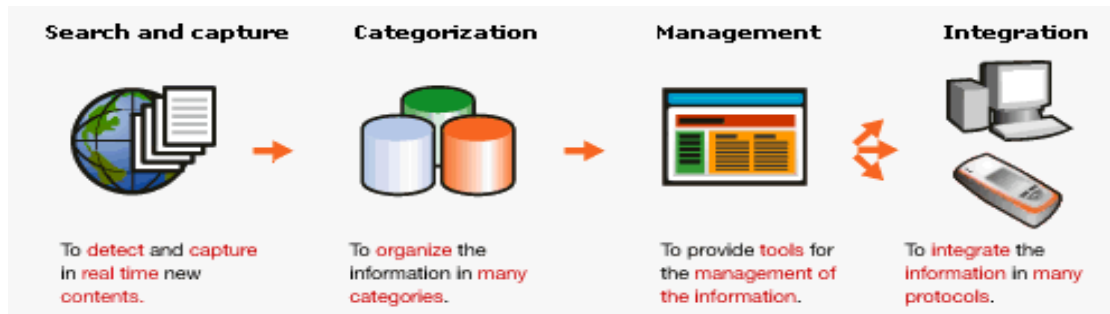

In June 2010, Allopress, one of the biggest French press clipping companies, called Antoine to negotiate the conditions of a contract to get unlimited access to NAO's database with exclusivity for France, Andorra, Luxembourg and the French speaking parts of Switzerland and Belgium. Antoine was waiting for Carles advice and opinion. On the one hand, NAO was in a very difficult business situation after Presscut announced that it would no longer be requiring the services of NAO, which represented about 30 percent of NAO's revenues. On the other hand, NAO had to think whether the best way to penetrate international markets was through selling unlimited access to its online news database with exclusivity. Carles wondered whether NAO's internationalisation strategy was adequate. He asked himself:

> *"What could be done in order to cover the loss of revenues without selling unlimited access to the database in addition of commercial exclusivity for all of the French speaking European regions."*

He needed to come with other growth options quickly or he would have no choice but to accept the offer being made by Allopress.
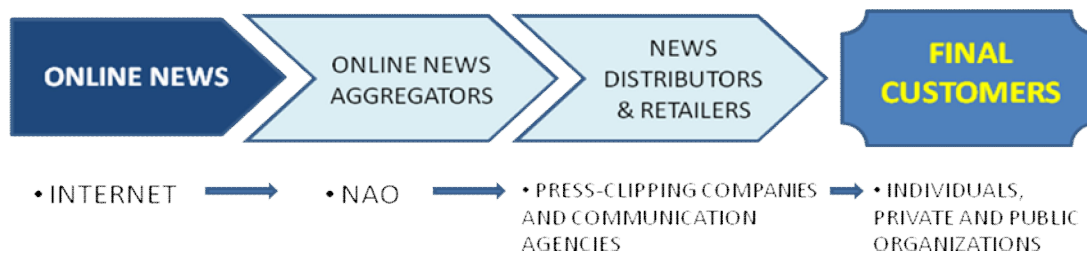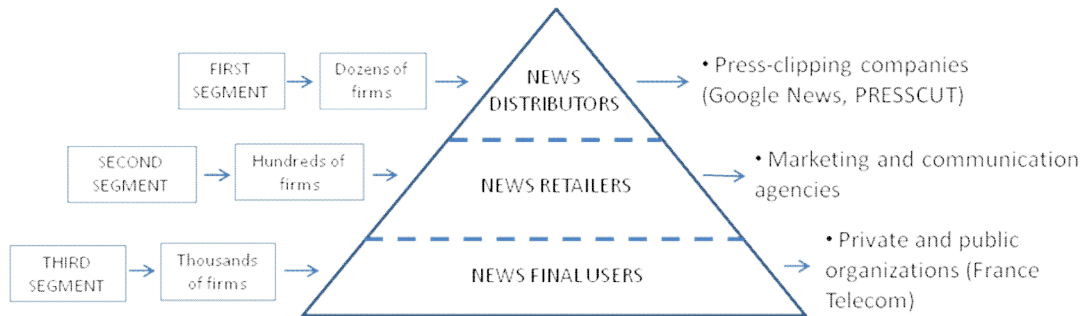
Appendix One

NAO's Technology

Search and capture	Categorization	Management	Integration
To detect and capture in real time new contents.	To organize the information in many categories.	To provide tools for the management of the information.	To integrate the information in many protocols.

Appendix Two

NAO's Products Lines

WEB CONTENT
- Deliver aggregated and updated online news content in different formats to include in web pages.
- Price based on the number and type of information demanded.
- Target: Final customers.

PRESS CLIPPING
- Search and deliver a selection of online news grouped in categories.
- Price based on the number of media covered.
- Target: Press-clipping firms and final customers.

TECHNO SOLUTIONS
- Self-configured web application to search, classify, integrate and deliver online news content.
- Price based on the number of searches done.
- Target: Communication agencies and press-clipping companies.

NEWS DATABASE
- Access to the online news database updated in real time.
- Price based on the number of media covered.
- Monthly fee.
- Target: Press-clipping companies.

Appendix Three

NAO's Value Chain

ONLINE NEWS	ONLINE NEWS AGGREGATORS	NEWS DISTRIBUTORS & RETAILERS	FINAL CUSTOMERS
• INTERNET	• NAO	• PRESS-CLIPPING COMPANIES AND COMMUNICATION AGENCIES	• INDIVIDUALS, PRIVATE AND PUBLIC ORGANIZATIONS

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Appendix Four

NAO's Market Segments

Appendix Five

NAO's Sales, Costs and Profits Evolution

	2003	2005	2007	2008	2009
SALES	212.149 €	386.574 €	537.417 €	647.850 €	718.525 €
COSTS	251.446 €	371.452 €	524.652 €	523.689 €	618.000 €
PROFITS	-39.297 €	15.122 €	12.765 €	124.161 €	100.525 €

Appendix Six

NAO's Timeline of Main Business Events
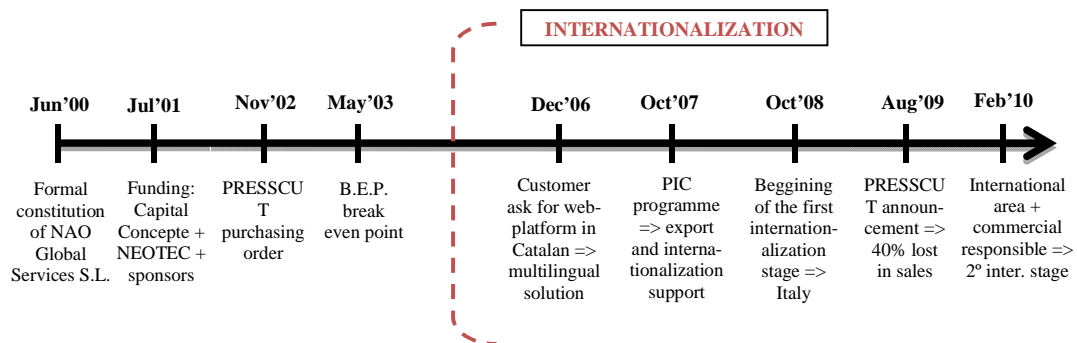
Notes

1- This text is a business case study for teaching purposes. It has been prepared as a basis for class discussion rather than to illustrate either the effective or ineffective managing of an administrative situation. Although the case and all the facts described here are real, we have disguised the name of the company and all the rest of the names.

2- News Aggregator Online, S.L.

3- The Internet bubble of the late 1990s was remarkable by almost any measure. In 1999, 294 Internet firms went public, raising more than $20 billion. By March 1, 2000, Internet firms had a combined market value of $1.7 trillion. By the end of 2000, the ISDEX had returned to its level on January 1, 1999. It fell another 69% over the subsequent nine months, for a total decline of nearly 90%.

4- COPCA is the The Catalan Agency for Export Promotion. It gives support and financial help to Catalan companies willing to export.

5- NAO entered into what was called the Alpha programme from COPCA, where business consultants specialised in firm internationalization evaluated the resources and capabilities of the company to export.