

NETEX and the pinnacle of E-LEARNING: in search of the American dream

1. INTRODUCTION

Summer of 2014. Carlos Ezquerro, CEO of NETEX, has never had doubts about the international vocation of this company, which was created back in 1997. NETEX bet on the application of technology in education when, in Spain, nobody had heard about what nowadays is known as e-learning. From the periphery of large business centres in Icaria (Oleiros), a village near the city of A Coruña (Galicia), northwest of Spain, many now consider NETEX a technological reference that is present in India, United Kingdom (UK) and Mexico. However, reaching the top in this business involved that the company had to develop a strategically position in the US. "How to achieve this?" is the question that Carlos asked himself some years ago.

Carlos Ezquerro does not realize about it, but when somebody enters into the headquarters of NETEX many things surprise the visitors: the light, the smell of new premises, the strange mix of youth and seriousness in each of those corners where, from early morning, many heads are leaning over huge computer screens. Someone rushes to the cafeteria "made in IKEA" in his way to the recording studio, while a group of people, hardly classifiable by age, gender or salary levels, come together, as every morning, in a glass-surrounded room, around a huge table designed by Carlos, with an English teacher, which perfectly represents the innate international vocation of this company.

Entrance of NETEX



2. THE COMPANY AND ITS VALUE PROPOSITION

Since its creation on April 7th, 1997, NETEX has kept the *e-learning* in its DNA. On that day, the founding partners Carlos Ezquerro and Joserra Mosteiro constituted a company that had as business objective to offer technological solutions for both business and educational training spheres. That year the internet access coverage rate in Spain was around 3%. Initially, the target customers were large companies that needed to train a large number of workers, and thus e-learning arose as a quick and economical solution for them. The lack of e-learning demand in Spain at the time led them temporarily become a training company that offered a master program in innovation through a mix of off-line and on-line classes, through their own platform and in collaboration with the Chamber of Commerce of Brooklyn (New York).

This was one of the first online master degrees that could be done in that country. At the same time, OBERTA, the first on-line university of Spain was born in Catalonia.

“We are crazy” states Carlos while smiling. “We are a complex company. And I think it's because those who have built this company we are all a bit peculiar. And to understand it, we must go back to our history. This company was established in 1997, when only 2% of the population had an e-mail account. And we started talking about e-learning... from here, Coruña. At that time, if a company was not from Madrid or Barcelona, it was considered that it did not know about technology”.

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In 1998, NETEX became a partner of IBM. “The fact is that, being a partner of IBM, we began to control some of their technologies, and we started working on projects for the local market where we had to build IBM solutions that were not on education. However, we realized that, although these projects helped us going financially, they were diverting us from our project”, continued Carlos. “So we left them. This was a personal challenge. My partner and I wanted this company to be recognized internationally”.

Thanks to this alliance with IBM, before 2000 NETEX was able to carry out one of the largest implementations of e-learning solutions for Telefonica Mobiles, one of the biggest companies in Spain. This served as a springboard for other projects in the country.

At that time NETEX added to its technology services a factory for content development, allowing the company to offer a more comprehensive software and specialized content solution for companies.

The innovative spirit of NETEX always remained as a distinctive feature of the organization, and in 2005 the firm began to develop training solutions through mobile devices (mobile learning), closing a pioneering project in Europe with Telefonica. In 2006, the venture capital company Vigo Activo became an investor of the company, with 25% of the total capital. NETEX then began a major growth and strategic configuration phase. This year the firm presented a business plan that assumed the company's own software development, a platform for training management (LMS) that already incorporated the training philosophy 2.0.

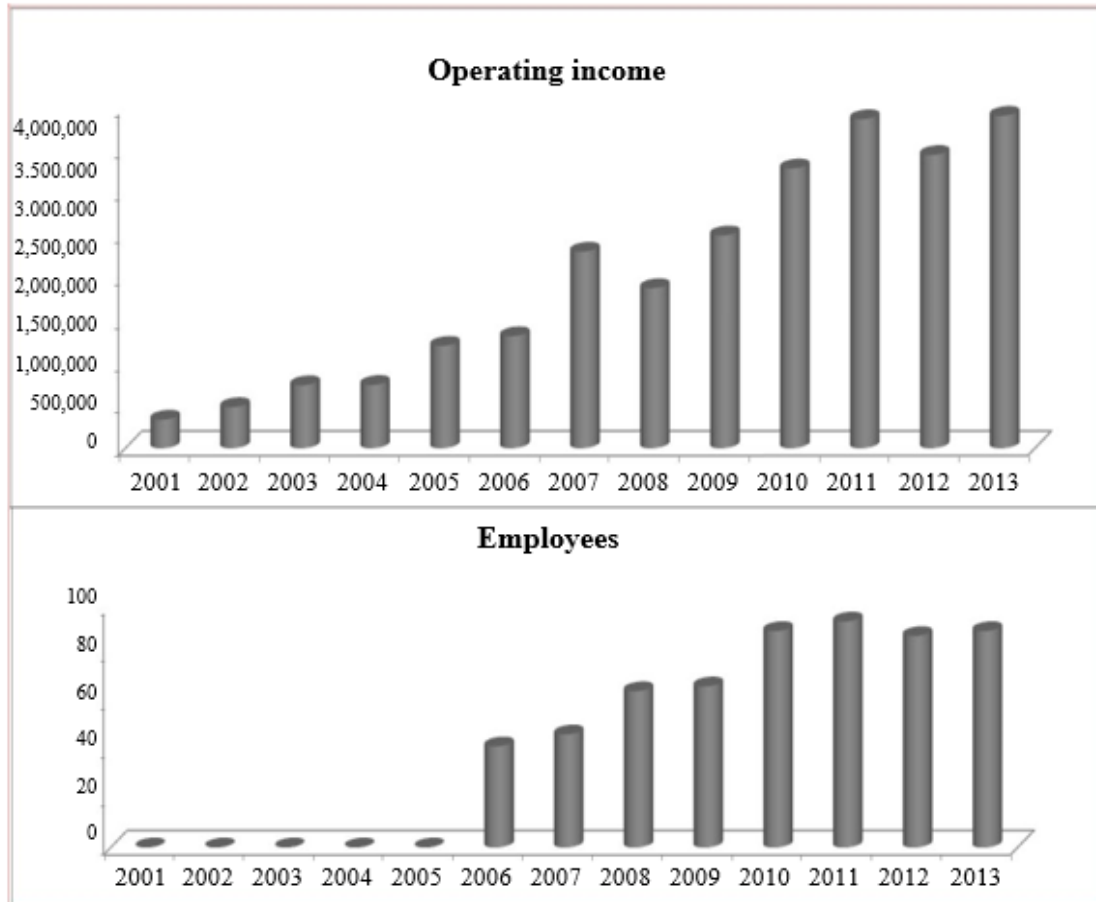
The innovative spirit always remained as a distinctive feature of the organization, which began its international expansion in 2008, coinciding with the start of the most important global economic crisis in decades

In 2007 a significant change in technology arose. NETEX's content factory decided to abandon the flash programming language (which was the common language in most content developers), and start working on HTML. This opened the path that later would lead them to the innovative development of other multi-device formats.

At the time, a growth was also manifested in economic terms, employment and offices (Fig. 1). Apart from the office in A Coruña (Oleiros), sales offices were opened in Madrid and in London, both focused on selling product lines developed at the headquarters.



Fig. 1. Evolution of operating income (€) and number of employees (2001-2013)



Source: SABI (2013) and data provided by NETEX

In 2008, at the start of one of the most important global economic crisis, NETEX began its international expansion. Carlos and Joserra had already participated in some trade missions led by public institutions in Latin American countries, but that year, thanks to the support of its new investor Vigo Activo, they clearly saw the possibility of opening a software factory and a sales office in Pune, India, an emerging market that could help them acquire an international position. Carlos' aim was very clear, the goal was to enter the English-speaking market, as Latin America had traditionally clustered Spanish companies. Although its customers valued that NETEX was able to surprise them with innovative solutions, NETEX's partners also knew that they were a small and financially weak company. "To reach the English-speaking market, the strategy was to implement in countries such as India and the UK," said Carlos. "We did not choose India, as many people may think, due to cost reasons. In fact, it did not come to be very cheap. We chose India because it was a bridge to access projects in the UK and USA, and because we needed an important number of software engineers who at that time were not easy to get in Coruña".

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In 2009 NETEX accessed the editorial sector with an strategic agreement with the biggest Hispanic speaking publisher, Santillana. This established a relationship that was consolidated and strengthened over the years through different international projects throughout Latin America. "When we entered the publishing vertical line of business, we multiply by two the sales. But we also multiply by two the number of employees" said Carlos. "Thus, in 2010, we reflected on our strategy: what do we want to be in the future? If tomorrow we sell twenty millions, will we be 400, 500, 600 people? We cannot. And we do not want to grow through offering services. We then decided to start creating products. During 2011 and 2012 we invested more than three million euros in that. During these years, we developed a complete solution of applications to create contents (Learning Maker), management training (Central Learning), and also catalogues, both in the vertical line of education (Learning Fruits) and the vertical corporate line (Learning Coffee), which could be combined with the development of customized products (technological consultancy in e-learning) ".

At that time, NETEX defined the matrix structure that would follow the business model of the company in the following years. On the one hand, two vertical markets: the corporate, designed to deliver technology and content solutions to businesses, and the publishing vertical, aimed to cover the strategic need of transforming the company's business model to a digital one.

On the other hand, the portfolio of solutions was configured as two horizontal axis. Thus, the combination of vertical markets and solutions led to business models to B2B Businesses, B2B Publishers, and left open the door for a future business model B2C (standard products for end users).

Figure 2. Business model of NETEX

		Market verticals	
		Corporate	Editorial and publishing
Portfolio of solutions	Contents	Learning Coffee Customized catalogue and development	Creation and adaptation of publishing content into a digital format Tools or the creation of multi-device digital content
	Software	Learning Cloud Application set for the creation, distribution and management of training	Software for school management

Source: own elaboration

This way, and from a technologically innovative perspective, NETEX offered a platform, a pedagogical model, a software factory and the integration of all contents both fixed and mobile devices, for its two target customer segments: business and publishers.

"Thanks to that investment, which meant a certain slowdown in turnover (Fig. 1), in 2013 we managed other companies abroad to sell our products. It was an achievement to be considered the only European company able to participate in the development of

international standards for programming of e-learning products. For us that was the aim. To position ourselves as an innovative company and to be able to be recognized internationally" added Carlos.



In the following years NETEX opened a sales office in Mexico and continued its international expansion in Latin America, developing its editorial vertical business line through its alliance with Santillana (in 2014 its school management products were used by more than 700,000 users). Besides, NETEX also developed its corporate vertical, with a technology project (through mobile devices) to train employees of Banco Santander in Mexico. At the same time the company was also consolidating its strategic position in the British market through its alliance with Cambridge University Press in London.

However, this expansion process also had organizational and financial difficulties. While it is true that the first contacts abroad (India, Argentina) were made through trade missions supported by public bodies, there was a lack of investor and institutional support for the growth model that NETEX wanted to implement abroad. But Carlos and Joserra did not change their business vision, and developed their internationalization model based on an internal strategic reflexion and a gradual growth, thinking on the availability of financial resources. However, this made them take a slower pace of growth to the one they expected given the innovative potential of the company.

NETEX developed its internationalization model based on an internal strategic reflexion and a gradual growth, thinking on the availability of financial resources

Carlos checked his spreadsheet for strategic planning and said: "We expected a revenue growth for 2014 of 24% due to the input on products (licenses). In 2017 we expect a growth of 51% in our international market, without considering the international projects that we already have in Spanish companies. This means that we would reach a figure of about 10 million euros (from that 51%, 12% would be in the US if we start selling there in 2016). However, with a sufficient investor support, we could speed up the entry in the US, increasing the expected turnover to 15 million in 2017".

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Carlos did not consider that the lack of investors could turn their project into a "missed opportunity". Although, in the summer of 2013, the lack of liquidity (not profitability) made it difficult for the company to run some payments, "the liquidity is what always worries one" continued Carlos. "Our problem is financial, not a business problem. Our working capital is negative. And our liquidity pressure is constant. This year we paid, including amortizations and interests, almost one million euros. The 23% percent of our debt, we just paid this year!".

"There was a time when we felt death was looming over" Carlos smiled. "But we overcome the situation, and managed to keep our team. However, we are aware that, within our business model, the international expansion is a bottleneck for the productivity of the project leaders, due to, among others, the lack of their international profile (knowledge of languages, etc.). I know very clearly that we need a good performance and appraisal system. I know there are many standard products on the market, but that is not enough. I know what we need and I want to design it my own".

2014 was a difficult year. The hard work of previous years had allowed NETEX to gain reputation among customers. The company's financial stability was also thanks to the participation (of 6% of the capital) of I2C Technology Fund, and the acquisition of a shareholder loan. However, although NETEX still had a growth potential in the local market and could gain higher profitability in the short-term through consulting projects with companies nearby, the partners agreed to focus on achieving a long-term dream: to become the e-learning reference supplier of the most innovative market in the world: USA.

To do this, we prioritized the long-term goal of international growth over the short-term domestic based profitability goal, which was clearly focused on innovation. Carlos and Joserra's idea was clear and they knew that, despite it would surprise many local investors, its growth model will not be to be known as an important company in the sector e-learning in Spain, and then, from that position, jump into foreign markets. Instead, NETEX would focus on the English-speaking market from the beginning, building a reputation and a name in the UK, and from there jump to its target market: USA.

If that process could also considered project opportunities in Latin America with Santillana (within their publishing vertical line of business), or with Santander Bank (part of the corporate vertical), and even take advantage of its location in India to sell products from its Learning Fruits educational catalogue, that would be even better. But its strategy was different, and they did not want to fall into the trap of rapid domestic growth at the expense of losing the opportunity for positioning the company in the global e-learning industry. In this sense, NETEX resigned to maintain a local focus, and decided to adopt a global competitive approach in the e-learning sector from the very beginning.

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NETEX headquarters in Icaria (A Coruña)



Its growth model, in short, was focused on three business models: B2B (corporate vertical), B2B Publishing (editorial vertical) and B2C (standard products for end users). And underneath it had a layer of project managers and a content factory with a pool of technical and transversal specialists. This combined growth model aimed to reach the end-consumers. However, the internationalization strategy would mainly be based on the B2B model (Editorials), and in a medium-term, on the combination of the B2C approach with other external channels.

Their enterprise B2B model required a closer relationship with the customer and a consulting work. However, Carlos believed that this model demanded an organizational structure that NETEX was not willing to change to develop its overseas markets. Its international strategy was focused on growing its commercial offices in Madrid, London and Mexico, and developing channel partners to grow in other countries.

The editorial B2B model was part of its international growth model, both in the UK through Cambridge Press, and in Latin America, through Santillana. This kind of growth did not require moving a large part of the staff to the premises of the customer (only certain professionals in punctual occasions). It allowed to keep the software factory in Galicia, or in India, and to maintain commercial offices only in those countries where a continuity was expected.

NETEX headquarters in Icaria (A Coruña)



The B2C model was a new growth vector in which the company aimed to reach the end users of e-learning programs through government institutions or consultants. Thus, NETEX could eventually implement their online training programs through mobile devices in public schools provided that it was able to win a bid launched by the educational administration of that country. To sell their education products to adults, the company planned to involve consulting firms with economic and financial incentives.

"In NETEX we define ourselves as educators, designers and new technology experts" says Carlos. "We are not just software engineers. We apply technology to meet a target: learning. The key to this business is simplicity. We want the online training to become a natural learning process. And not everybody can get that".

3. INTERNATIONALIZATION STRATEGY: PARTNERSHIPS

The value chain of NETEX is set around the innovative profile of the company. In this sense, it has maintained an ongoing relationship with technology partners such as the University of Santiago de Compostela, A Coruña University or University of Murcia, and educational content providers, such as universities of Deusto or LaSalle, among others.

Seeking external collaborators to design new technological solutions for the e-learning model has been combined with internal technology developments (Learning Maker), collaborative platforms (Learning Central), catalogue educational products, both in the vertical line of education (Learning Fruits) and the vertical corporate line (Learning Coffee), and development of customized products (technological consultancy in e-learning).

"The main value that NETEX offers in the market, as compared to its competitors, is its all-inclusive and comprehensive profile. We offer a complete e-learning solution: the platform, the pedagogical model, the software factory, the content digitalization and the integration of both fixed and mobile devices".

"The main value that NETEX offers in the market, as compared to its competitors, is its all-inclusive and comprehensive profile. We offer a complete e-learning solution: the platform, the pedagogical model, the software factory, the content digitalization and the integration of both fixed and mobile devices", states Carlos. We have been one of the first companies to offer online training solutions through mobile devices". Internationally, its organizational structure had enabled the company to offshore the software factory, not only geographically (India), but also through externalizing it through its suppliers and customers both nationally and internationally. This had only been possible by the prior internal authorship technology development and technology platforms, which reduced the professional qualifications of the technicians that had to program the content. Besides, thanks to the training given to technicians in these tools, through certificates, a potential future source of income was created. This not only allowed integrating the value chain of NETEX with its suppliers and customers, but also lightening the labour cost of the company and giving the company a higher organizational flexibility.

As the firm was settling down, NETEX went from being a partner of IBM that made its e-learning platform (LMS Learning Space) to create its own platform; from a brief alliance with an Indian partner to the development its own software factory in that country.

The reasons behind that choice of internationalization (based on an internal growth) have been (1) the aim of the firm to seek control and retaining innovative profile of the company and (2) the financial constraints. In 2013 they contacted a potential Indian technology partner, who was able to provide innovative solutions to collaborate with schools where NETEX had already started working. However, the lack of investors' support made this collaboration unfeasible. But this did not stop NETEX to continue. Carlos explained: "this financial constraint has forced us to work on developing our own collaborative tools for schools, which are simpler than those offered by the Indian supplier, but we are aware that our tool will allow the teacher to control the tablets of the students in the classroom, which is the functionality that interested us the most".

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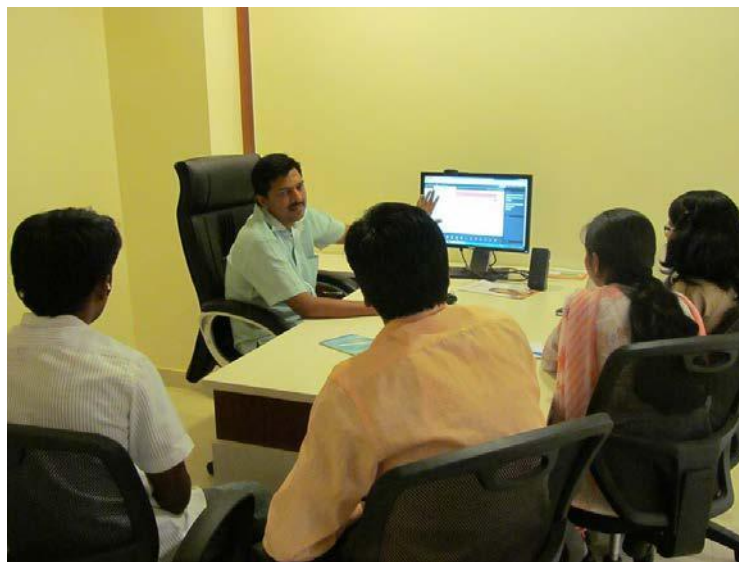
NETEX began its internationalization process alone, as most SMEs. In 2006 they went into a commercial prospecting process as a result of the incorporation of Vico Activo as an investor, which allowed the company executives to visit Chile and Argentina and check potential partners in Mexico, UK and France. The commercial office in London allowed them to connect with the country that plays a "hub" role for their positioning in the American market. According to Carlos, a European company with a presence in the UK market has created a bridge to reach more easily the US. The agreement with Cambridge Press, a referential editorial in London, allowed them to strengthen their presence in the country.

At that moment, to have a content factory in Pune, India seemed the most appropriate strategy. They worked in English, were qualified, their communication via ICT was integrated in their natural way of working, the wages were significantly lower, and more than 60% of the global software investment was concentrated there. For two and a half years, from 2008 to 2011, an outsourcing contract with an Indian partner was signed to get qualified labour for technological development. The firm expected to get a cost leverage of scarce and expensive labour costs in Spain. "However, our immaturity made us pay money" said Ricardo, director of international expansion. "Then we found that, even though on paper the costs were lower, we had not taken into account that, in practice, the product development cycle was longer. We had expected to be 18 months, and the reality was that it was 36, as it was necessary to exhaustively detail the requirements of each product, there was a high staff rotation because the salaries offered by the Indian partner were not competitive according to the salary growth in the country (around 15% annually). And our projects are affected".

The coordination from Spain was not easy due to the distance between the countries and the language barriers. Therefore, in 2011 the contract with the Indian partners was cancelled and NETEX stayed in India by hiring a country director and maintaining a technical team that was operating with much more standardized development processes. However, said Carlos, "it remains difficult. To the language barrier, we should add the different ways of working and a high requirement of documentation. For example, we had communication problems in a project when we realized that a footnote was wrong in a book that they were digitalizing, so we sent them a screenshot of page n. 35, as an example to see what they needed to change. And what they did was to change ... only page n. 35!" Ricardo continued: "In the end, operationally, things were not working well.

Although the working language was English, writing is not the same as talking, and nearly anyone was talking to each other. Formal communication by email was done in English, but the most personal and emotional communication (which makes someone to feel that he/ she is part of a team and that his/her decisions are taken into account) never occurred. So, in the last months we have been reducing the number of employees in India, and we just left a local coordinator in the country, and a minimal technical team working on the content development. The analysis and technological design was brought back to Spain. When you see the salary gap between India and Spain, for a similar level of technical skills, the relocation of the activity seems the right choice. However, you must take into account the real number of hours needed to achieve the same result, due to the cultural differences, etc. Then the economic advantages are not that clear ".

NETEX headquarters in Pune (India)



After the initial offshoring experience in India, the partners decided not to outsource the high added value activities (project management, analysis and definition of requirements, R & D, commercial management).

The opportunity to expand its business to Latin America came from the previous alliance with the editorial Santillana in the Spanish market. Santillana was interested in searching new channels of distributing digital educational content. They needed to produce a large number of content in a short time, adapting all their textbooks to a different and useful digital format for the classroom. Then they needed to add all the distribution and marketing of those materials.

For that purpose, Santillana signed a strategic partnership agreement with NETEX, which was applying the digital editing system Learning Maker to design texts that were age-appropriate for the students, and incorporating much more interactive and visual resources to support the activity of the teacher in the classroom. To support the distribution of materials in NETEX they elaborated e-commerce solution in which commercials Santillana and families themselves could place orders for digital educational materials. The system connected the contents with other license management systems, learning platforms and commercial management systems.

Changing the business model to the digital edition of educational materials, which would be maintained in the future, let Santillana and NETEX sign an agreement for the use of the VLE CENTRAL platform in Spain and Latin America. In 2009 Santillana had already acquired a large customer in Latin America (a network of schools in Mexico), to which the editorial was providing digital educational content and its management through an e-learning platform.

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However, the digitization of content for schools in Mexico was not simple. Despite using the same language, NETEX made an effort to take the cultural tones and other language connotations into account, translating the e-learning audio content to Mexican language and using specialized translators.

This alliance with Santillana convinced the firm to implement the corporate activity in a stable manner in this country. Operationally, the entry of NETEX in Mexico was facilitated by a consultant from PIPE¹. As a result of this, they opened a technical-commercial office, where expatriate professionals from NETEX adopted a clear role of liaison between the company and the direct (Santillana and Banco Santander) and the indirect (schools) customers. But the main driving force for the implementation of NETEX in Mexico was the deal with Santillana. "Some say it is a risk to be so dependent on one customer," said Carlos, "But I believe that these relationships, rather than customer-supplier relationships, are alliances between partners, as we actively participate in the definition and development of their business models. Therefore, they very close partnerships, that are not easily broken".



The alliance with Santillana allowed NETEX to start working in Brazil. In 2013 NETEX considered setting up a joint venture in Brasil (the country's legislation required an entry mode through a local partner). However, the complexity of that new environment and the lack of investment support made the company refuse that option.

For the implantation in the UK, the strategic move was the following. "We wanted to sell in the US, so our commercial positioning in the UK was important, as the UK is a global capital on the e-learning business, and is well connected to Spain" said Carlos. A productive establishment was not an option, since the labour costs were much higher. However, the opportunity was

clear: a large project with a publisher could give NETEX the change to be present in that country through a commercial office, and allow the developments in Spain to

¹ PIPE is the Initiation Plan to Foreign Promotion, and institutional support project of the Spanish Government to support companies to export.

obtain better margins than those in Spain. The alliance with Cambridge Press Publishing made this strategy a reality. "The philosophy of our alliance with Cambridge Press is similar to that with Santillana" Carlos continued, "we did not want to do consulting in the UK, as that would have forced us to move or hire employees, to work at the customer's place, and we would have had many organizational problems. A large publishing client would facilitate things. We gather the information about its needs regarding its digitalization and e-learning content management and we work for that client from Spain. We concentrate many projects on a single client. And this only requires a monthly contact with the client so the workflow is much simpler".

4. FUTURE GROWTH: how?

In 2014, NETEX maintained its productive presence in India, a commercial establishment in the UK and a mixed establishment (technical and commercial office) in Mexico.

The reasons were clear. India concentrated 70% of the global investment in software and e-learning technological developments, and had many qualified workers. The UK was a mature market for e-learning, near to Spain and that could connect NETEX with the US market. Mexico, although it was a less mature, could let NETEX position itself NETEX at both the educational and the corporate business lines, and its geographical proximity to the US market (the main source of its investors) was an interesting factor too.

In 2014, without leaving its presence in India, the company had targeted the American market, considering the UK as a strategic enclave. The initial model of a software factory in India had been moving towards suppliers and even customers. Through the development of the platform Learning Maker, NETEX had been able to play a key role as a technological partner, capable of providing a platform where other companies could develop simple e-learning content and could hire NETEX for other more complex projects with higher added value.



However, the harsh financial conditions, motivated by the 2008 crisis and the difficult access to investors that were able to endorse an accelerated internationalization process of the company, had delayed the access of NETEX in the North American market. Nevertheless, the alliances built during 2004-2014 had created a solid structure to make the American dream true. For years, NETEX had opted for a gradual internationalization model. Without deviating from its strategic script and maintaining its commitment to innovation, the partners gave up opportunities in the local market and directed its activity to position the firm globally in the e-learning sector, but avoiding taking excessive financial risks. And yet, the company had many sleepless nights due to liquidity risk. Carlos felt that it was time to jump into the US, the peak of e-learning.

The team members supported this despite their different views. But there were doubts regarding the internationalization plan. "America was a new market... and huge. How should they deal with that challenge?"

NETEX and the pinnacle of E-LEARNING: in search of the American dream

CASE STUDY

The NETEX case study has been developed to provide support to teachers and university students in the field of developing an entrepreneurial culture, using a real company example.

NETEX, developer of e-learning solutions, is an example of vision, perseverance and ability to collaborate towards a growth goal through internationalization. Since its constitution in 1997, NETEX has maintained the e-learning in its DNA. Its value relies on the provision of an integral offer of services, that include the platform, the pedagogical model, the software factory, and the digitalization and integration of content in fix and mobile devices. Its international expansion, that begins in 2008 in Pune (India) and the United Kingdom, and has been developed in Latin America through strategic alliances.

NETEX case study gives the opportunity to reflect on the strategic dimension of the business, and a business growth model for entrepreneurial firms that are able to innovate and add value (and values) to the society.

This is a story of entrepreneurs who have managed to combine their dreams with their business strategy, which deserves to be disseminated.

The original case study was published in RedEmprendia in Spanish: https://www.redemprendia.org/sites/default/files//descargas/Informes%20REDEMPRENDIA2_Netex-y-la-cima-del-e-learning.pdf

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