

## **BUSINESS MODEL CASE STUDY OF BRAC TA A FIRM WITHIN THE INFORMATION TECHNOLOGY SERVICES SECTOR**

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### **Resumo**

Firm's competitive advantage could be achieved by different means, superior technology, entrance barriers, legislations, capital and knowledge. To acquire and maintain competitive advantage the firms need to get organized and be able to dynamically change to accommodate the market demands, increasing its value from all stakeholder's perspectives. This article's objective is to study a case of an information technology service firm from view of the value proposition cycle process of value creation, value configuration and value appropriation, the pillars of value. The qualitative research approach is used to uncover and describe the business, expose its operation from the startup to this day. Begging with a market segment review, detailing methodological choices and tools used to collect data, explain the basic concepts used, business model canvas, the cycle of value and the tree pillars of value, along with the knowledge creation on exploitation and exploration concepts to support the case study. The journey of Bracta from the foundation exposing not only the business, but also the dilemmas lived by the founder along the firm's existence. The conclusion will present the analysis of the business as it is and draw some recommendations from the academy based on the ground theory of business model value perspective, aiming to help the firm on his continuous life.

### **Palavras Chave**

Business model, information technology services, case study

### **Agradecimento a órgão de fomento**

Gostaria de agradecer a iniciativa científica, eventos como este não só criam a possibilidade de avançar a ciência mas também contribuem para sustentabilidade.

# **BUSINESS MODEL CASE STUDY OF BRACTA A FIRM WITHIN THE INFORMATION TECHNOLOGY SERVICES SECTOR**

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## **Abstract**

Firm's competitive advantage could be achieved by different means, superior technology, entrance barriers, legislations, capital and knowledge. To acquire and maintain competitive advantage the firms need to get organized and be able to dynamically change to accommodate the market demands, increasing its value from all stakeholder's perspectives.

This article's objective is to study a case of an information technology service firm from view of the value proposition cycle process of value creation, value configuration and value appropriation, the pillars of value.

The qualitative research approach is used to uncover and describe the business, expose its operation from the startup to this day. Begging with a market segment review, detailing methodological choices and tools used to collect data, explain the basic concepts used, business model canvas, the cycle of value and the tree pillars of value, along with the knowledge creation on exploitation and exploration concepts to support the case study.

The journey of Bracta from the foundation exposing not only the business, but also the dilemmas lived by the founder along the firm's existence. The conclusion will present the analysis of the business as it is and draw some recommendations from the academy based on the ground theory of business model value perspective, aiming to help the firm on his continuous life.

**Keywords:** Business model; case study; information technology services; information technology services brazilian market; value pillars; value proposition

## **Introduction**

The competitive advantage of a firm could be as dynamic as the level of competition under which the firm operate.

Considering this ever-changing environment as premise, it is possible to argue that a firm needs constantly to develop and maintain the ability to recognize and incorporate new knowledge. Update its offerings in order to be able to perpetuate its competitive advantage position, otherwise risk render its position for competition. Before any of that, the firm needs to understand clear the entire business value chain, from the resources required, how they are identified in terms of skills, where are they, what are important for them and what is needed to be done to maintain the resources already in place.

Considering the framework business model canvas we have the nine budling blocks to represent a firm's business(Osterwalder et al., 2010), there customer to be served, partners to be aligned and constant control over the costs and investments to be made.

The market is dynamic, the resources are in constant threat, the grow is challenging and more recently the remote work force gain significant emphasis due to the COVID-19 pandemic changed the way people work and companies use services.

## **Methodological procedures**

The research was based on the interpretivist approach, using the case study method, qualitative research and the data collection technique was presential interview using the questionnaire previously sent to the respondent for preparation. The instrument has 34 open questions enabling the respondent to express his point of view to base the researched subject. This sought the description and interpretation of the case study of the service company in the information technology sector called Bracta.

The investigation approached by means of exploratory and descriptive research that has as main purpose to describe the business model of the company observing the three pillars of the value, value creation, value configuration and value appropriation.

SUBJECT/THEMES BLOCK	Questions
<b>BUSINESS AND COMPETITION</b> (construction process; routines; formalization; evolution)	<ol style="list-style-type: none"> <li>1. What's the original business idea? How did this idea come about?</li> <li>2. How did the company come about?</li> <li>3. What needs or solutions did the company's products/services aim to meet?</li> <li>4. When the company entered the market, who were the competitors?</li> <li>5. What advantages did they have because of their precedence?</li> <li>6. How has your company handled the competition?</li> <li>7. What was the price positioning of your products and services against competitors?</li> </ol>
<b>clients</b>	<ol style="list-style-type: none"> <li>8. What is the initial customer segment? How has this segment been identified?</li> <li>9. How did the company realize the benefits desired by its customers?</li> <li>10. To what extent did the benefits that the company offer its customers differ from competitors?</li> <li>11. How does the company relate to its customers? What tools do you use to relate to your customers? How does the company use this information?</li> <li>12. How does the company advertise its products and services?</li> </ol>
<b>RESOURCES</b> (technologies;financial; suppliers; partners)	<ol style="list-style-type: none"> <li>13. What were the key resources for the company to operate at the beginning of the business?</li> <li>14. What were your main suppliers? What about today? Is there a supplier that your company is dependent on? How do you deal with it? (Bargaining power)?</li> <li>15. How was the company's initial cost composition? Has this proportion been changing over time?</li> <li>16. What sources of funds did you use to finance the investment? And these days? What is the rate of return required by these sources? What is the form of investment (equity, mutual, options, mezzanine, etc.)?</li> <li>17. How does the company manage the investment in equipment and other fixed assets? Do you consider investing in fixed assets and working capital? Has the company made initial investments that will be lost if it leaves the sector? What?</li> </ol>
<b>MANAGEMENT AND PROCESSES</b> (operational; tools)	<ol style="list-style-type: none"> <li>18. What internal processes did the company need to develop in order to offer its products and services?</li> <li>19. How is the flow of activities performed for the delivery of the product /service (from the stage of acquisition of the products to the final product/service)? Does the company have an area for support activities such as: administrative, financial, marketing, etc.? How important is this area to your business?</li> <li>20. What is the relationship between clients served and employees necessary for service? Is there a limit?</li> <li>21. How do you manage inventories (if any) and receivables? How you manage payment to suppliers?</li> </ol>
<b>STRATEGY</b> (future)	<ol style="list-style-type: none"> <li>22. From the original business idea, have other opportunities arose? What?</li> <li>23. Have you used or used any Business Model tools? which?</li> <li>24. How did you define the time to expand activity to new markets and segments?</li> <li>25. Have there been any developments in the customer serviced segment? What about the proposed benefits? Have they changed over time?</li> <li>26. How did you define the expansion strategy?</li> </ol>
<b>LEARNING AND CHANGE</b>	<ol style="list-style-type: none"> <li>27. Did you need to modify the infrastructure to offer these new products or services? How have you acquired the resources and skills to serve new markets?</li> <li>28. Was there any opportunity that was abandoned or no longer exploited? What criteria have led to continuing or giving up? Do you know today when an idea is promising or not?</li> <li>29. How has sales volume evolved? What is your company's growth rate?</li> <li>30. Periodically analyzes the profitability of each product, service or market to verify the possibility of discontinuing them?</li> <li>31. Do you analyze the growth rate of products and markets to verify the possibility of discontinuing them?</li> </ol>
<b>CULTURE AND IDENTITY</b>	<ol style="list-style-type: none"> <li>32. What's your profile? How do you define yourself?</li> <li>33. What is the profile of your customers?</li> <li>34. How do you define your company's culture? Was she thought of? Has it changed since the company's creation to date? In what way? why?</li> </ol>

Picture 1 – Questionnaire instrument source: author translated from brazilian portuguese

The questionnaire was sent in advanced to Mr. Rubnei Gallego, founder of Bracta, and then in a different day a face-to-face interview conducted by the researcher, in an isolated room, each of the answers for the 34 questions were also recorded in digital media. The interview was held in May 2020 at the city of Barueri, state of São Paulo on the firm's headquarters.

## **Brazilian information technology market**

The arrival of the pandemic accelerated the process of digital transformation that was already underway with the rapid digitization of the numerous areas of business resulting in an accelerated shift toward the information society era (Binner, 2020)

With this, the service market in information technology received greater demand with emphasis on the process of digital transformation, requiring professional training of companies providing information technology services in the theme.

Data from the Brazilian Association of Information and Communication Technology Companies reveal that the market should create 420,000 job positions by 2024, with an estimated 150,000 vacancies not filled by lack of qualified professionals in the areas related to digital transformation services. According to the entity, the institutions form, per year, 46,000 people with technological profile, which is still insufficient, generating a deficit of approximately 24,000 specialists annually.

In 2019, the use of computer programs developed in the country represented 28.5% of the total investment, maintaining the trend of participation of the software developed in the country in relation to the total market, 21,020 companies dedicated to the development and production of software, distribution and provision of services in the national market, and 58.3% of them have as main activity the development and production of software or provision of services. Considering only the 5,519 companies that work in software development and production, about 95.3% can be classified as micro and small enterprises, according to an analysis performed by the criterion of number of employees (up to 99 employees). Almost 50% of the user market is composed of companies from the Finance, Services and Telecom sectors, followed by Industry and Commerce (ABES, 2020)

In the cloud computing segment, the market showed significant growth in 2019. Software as a Service or SaaS solutions increased by 48.7%, while platform as a service solution known by the acronym PaaS grew 55.4%. The Internet of Things (IoT) segment market, including connectivity hardware, software and services, also grew, with a rate of 18.7% compared to 2018.

The information technology services are present in platforms such as websites, e-commerce, applications, games, online classes and the most diverse applications used by companies and end users. The development, maintenance, improvement and support are part of the services that specialized companies provide in this segment. For the development of knowledge and value creation are required by the service companies of professionals who are specialized through academic training in the area of digital information technology, by technology manufacturers companies and also by the service provider company itself.

The data for the services market demonstrates the high number of companies providing information technology, software services and other kind of services for a growing demand. Additionally, there are growing diversity of technologies to be serviced by the companies, indeed a dynamic and competitive environment.

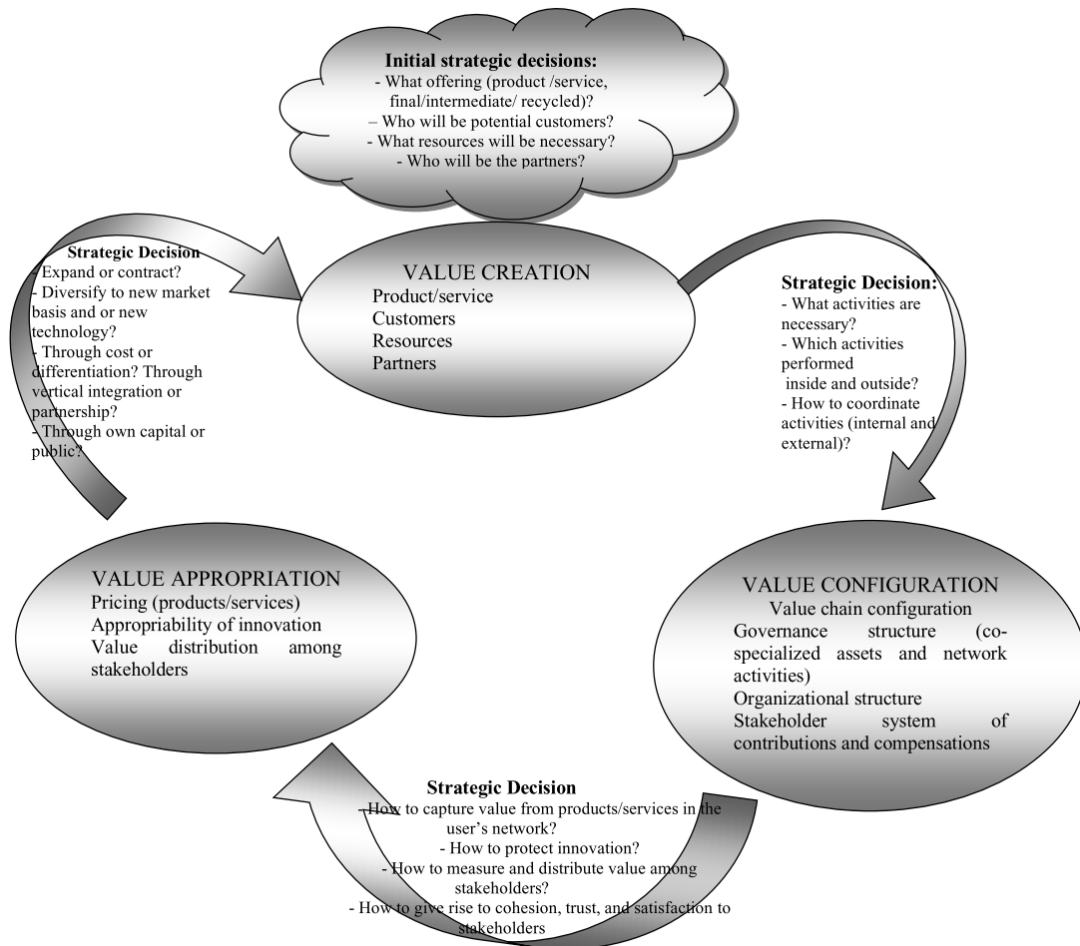
## **Ground Theory**

To detail this case study, we use the collected information and represented the Bracta business in the static picture of the business model canvas to describes the rationale of how the organization creates, appropriate, and captures value for the company's stakeholders within its nine building blocks (Osterwalder et al., 2010).

The information technology services business sector and the value construct are inherently dynamic. Sometimes due to external influences such as competition, market demand, technologies, regulations, organization environment and others. Also, the internal environment

creates pressure for changes, the personnel rotation, level of automation, the organization configuration and internal knowledge.

The static representation of the business model canvas is challenging, the dynamic nature of the value and the business environment are better represented using the process approached proposed by value cycle, supported by tree pillars of value creation, value configuration and value appropriation, an evolutionary cycle representation providing the dynamic process view of value(Meirelles, 2019) as presented in picture 2.



Picture 2 – Cycle of value creation, configuration and appropriation source:(Meirelles, 2019)

Information technology service firms such as Bracta are required to change and adapt rapidly over time following the needs and changes imposed by the demands, hence the justification of the use the cycle value approach.

The value creation, meaning the process of discovering and recognizing opportunities through analyzing the surrounding context of business ecosystems, together with their internal resources and capabilities, pursuing superior value delivery through customer and stakeholder advantages(Meirelles, 2019). At this initial step of the value process, the service organization should prepare their asset for the service offer by specialized skills knowledge development, design the hiring engine which continually fills the firm with new skilled professionals and manage the cost optimization to fulfill the firm’s mission.

The Value configuration means the process of implementing opportunities through articulating resources and activities internally and externally in search of a dynamic efficient value system, according to the organization’s evolutionary path(Meirelles, 2019). With all

professionals in place and properly skilled, here the service firms organize the resources to configure the promises of the service to be delivered for the clients in lined with the clients and the firms promises made.

Value appropriation is the process of learning through evaluation of feedbacks effects linking performance outcomes with strategic choices, walking the fine line between value creation and value configuration in other words is what delivery of promised for the stakeholder's of the firm, in the service organization are the services within time and budget delivering all what was agreed with the clients, for the employees of the firms are the salary and bonus promised and for the shareholder the aimed profits and for the firm itself is the continuous competitive advantage in a form of feedback to the value creation.

The Dynamic capability is defined as the firm's ability to integrate, build, and reconfigure from internal and external knowledge to address rapidly changing environments. Dynamic capabilities thus reflect firm's ability to achieve new and innovative forms of competitive advantage(Teece et al., 1997). A firm dynamic capability is a high-level routine or collection of routines that confers firm's management a set of decisions options to react in a continuous manner to market challenges being part of the firm's repertoire. The firm routines define the firm's uniqueness, sometime refer as the "gene" of the firm. A collection of routines can represent the firm's capability. The collection of routines together with its implementing input flows, confers the firm's management a set of decision options for producing significant outputs of a particular type (Winter, 2003).

The Knowledge is dynamic; it is created in social interactions amongst individuals and firms. Knowledge is context specific, as it depends on a particular time and space. Without being put into a context, it is just information, not knowledge. Therefore, knowledge is information interpreted by individuals or firms, given a context and anchored in the beliefs and commitments of individuals or firms; more simplistically knowledge is processed information. Knowledge is increasingly regarded as the most critical resource. Much recent attention has focused on the importance of knowledge for sustaining firm's competitiveness and its role in technological innovation and firm's learning.

### **Bracta history**

The Bracta company emerged between mid-1999, at the time of the millennium bug. The partner Rubnei was an employee of Grupo Imarés, a large company providing services in the area of information technology.

Due to the millennium bug that posed a threat to computers in general to stop operating or even perform wrong operations, a great demand arose for the Imarés Group to meet for the company Pão de Açúcar that was to check and update the software of all equipment so that this problem did not occur mainly in the equipment of the points of sale, the POS, which were in the stores in the supermarket cashiers throughout Brazil.

It was a service of great proportions and the Imarés Group, decided to outsource part of the demand to other small companies that would update the POS meeting the needs of its client.

Rubnei was part of the Imarés Group team that did this service and was offered the possibility of being a subcontractor of Grupo Imarés for the project as well as other people. Rubnei had the possibility to continue as an employee of the Imarés Group and the alternative of having its own company and providing services.

The service to be provided was through the Imarés Group initially for the final customer Pão de Açúcar, a huge demand due to this millennium bug. With this, Rubnei decided to undertake by dropping the position of employee and becoming an entrepreneur, an objective he always planned personally.

Rubnei then founded the company for this purpose, initially called Intec, a technology service provider that provides the millennium bug-related to ensure that the equipment worked

properly. However, this service that required much of Intec, also needed an additional activity that was to perform the inventory of technology equipment in customers and this need to provide services created another service offering, which is the service of inventorying the technology equipment of companies.

With this, Intec has already owned two service offerings from the millennium bug and inventory service, always for Grupo Imarés customers. In the provision of the two services came another need of customers to technical support of information technology, which would be met by a new offer developed by Intec, the technical support services to the technology assets of the companies, this service was initially offered to direct customers of Intec no longer only for indirect customers through the Imarés Group.

Six months after the foundation, Intec reached more than 120 employees, which brought management and control challenges for the firm, quality of services, knowledge and internal processes were constant struggles.

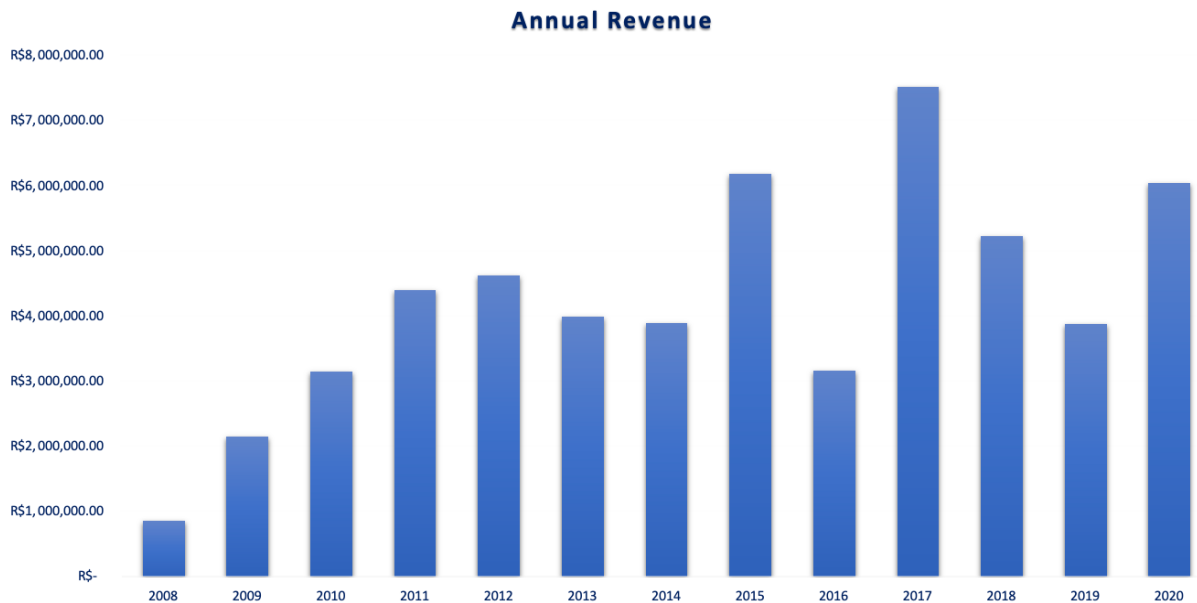
In mid-2002 Grupo Imarés canceled the contract with Bracta, the result of a bad service to an executive of one Imarés Group client. With this, Intec had to let go all employees, because there was no other client to consume the services, labor costs caused the minority partner to sell his position back to Rubnei, which paid all burden of layoffs. He then returned to the labor market as an employee.

Rubnei kept the firm Intec open with a small number of employees, reorganized the firm establishes new goals and changes the firm's name from Intec to Bracta, which now has two more partners Luiz and Claudio. Rubnei in charge of the management of the firm, financial, human resources and other areas that are grouped in what they call back office; Luiz is responsible for the marketing and sales areas and Claudio for the technical area of the firm. The three are friends, Rubnei and Luiz studied computer science together and have a long-standing trust, Claudio was part of Intec and knows Rubnei since childhood, they lived in the same neighborhood for years.

With the lesson learned from Intec's experience, Bracta's strategic principle is to have more partnerships, so as not to be dependent on a single intermediary partner of Bracta's services. Then, come new partnerships starting with Brasoftware, which is a Microsoft software distributor that does not provide value-added services such as installation, design and support. In addition to this partnership other partnerships are made with Mercury Interactive, HP, IDS Scheer, HP and more recently SailPoint.

These partnerships have provided Bracta risk mitigation, although there is considerable concentration in the Microsoft platform's with Brasoftware. Bracta's technical expertise is recognized, making it a Microsoft Gold partner category, offering services and allocation of resources called green badge, that is, Bracta professionals work on Microsoft customers as if they were Microsoft technical resources. The other partners at different times brought considerable growth for Bracta in the indirect sales operation, which maintains a considerable trouble in Rubnei's mind, since the revenue of Bracta's direct customers are a small fraction of indirect customers.

Still Bracta possess a growing revenue capacity the financial administration under Rubnei Bracta accumulates a strong cash position, giving Bracta a comfortable position allowing the firm survives for at least two years without a single revenue and maintaining its entire structure. Figure 3 shows firm's revenue history from 2008, and the firm has been in the market since 2000 in the highly competitive information technology services market for more than 20 years.



Picture 3 - Bracta revenue history, source: Bracta

Although the firm success in the market, there is a constant concern in Rubnei's mind, the fact that Bracta does not have a significant direct client base revenue, in his assessment the reason is that the firm does not know how to sell and does not have a sales area with sufficient force to maintain the constant revenue flow of the firm without relying solely on partners. A professional and mature sales area requires organization, adequate knowledge, control and investments that can be significant and can generate results in the medium to long term.

The dilemma experienced by the founder now is to invest in a sales structure without the guarantee of success and burn the reserve or invest little and wait for the results to happen? How to plan and execute sales, how to send messages to the market in such way potential firms want to listen directly from Bracta and buy its services? How I plan and educated invest in these endeavors and when to stop investing?

### **Bracta competitors**

At the beginning of the operation, the firm's competitors were other former employees of the Imarés group who opened small companies to provide the same outsourced services, and these companies created offers similar to Intec offering Intec various competition problems, these companies received territories but better than those offered to Intec, due to the next relationship that the owners of the competing companies had with the Imarés group, leaving the territories more distant and complex to Intec. This has left Rubnei very frustrated, and this starts its dilemma of reliance on an intermediary, in this period the Imarés Group, for its service offerings. Then Intec began to offer its services directly to customers without the intermediation of Grupo Imarés.

Important, the competing companies were owned by former employees of the Imarés Group with more than 20 years working for then. This created a chain of relationships within Imarés Group, Intec nor Rubnei did not have that. To deal this aspect of the competitors and the clear preferences of Imarés Group to Intec's competitor, Rubnei possessed an added value unique value of strong technical background, with that Intec was able to resolve trouble clients that his competition was not, making Imarés Group redirect these customers to Intec for their best technical capacity, which increases the competitive advantage of Intec.

Intec's strategy at this time was based on the best technical capacity with prices slightly lower than competitors. Although, Imarés Group was the price dictator, leveling the price



offered by all firms providing services to its customer base. Also, to improve Intec's position in the Imarés Group mindset, Rubnei brought a person that worked for more than 20 years inside Imarés Group as a minority partner of Intec which improved leveled Intec's relationship with Imarés Group.

### **Bracta Clients**

Bracta's clients base were major indirect concentrates into few partnerships, which caused the first era under the name Intec to grow fast and in two and half year's force to let go all the resources and restart the business. The growth of the number of partnerships allowed to serve indirect clients from many industries and mitigating the risk of single partnership. The direct sales aimed to bring additional revenue and form a direct client base, so far, only few clients in the financial services area exist and that area for small that is it sustain Bracta through the pandemic period.

### **Bracta Valor**

Bracta's value proposition is to offer end customers the best technical services on the market, in any of the partner platforms it has at the best costs. The firm's motto is "everything is possible"

In creating value Bracta seeks to keep in touch with the base of market professionals, analyzing salaries and benefits to attract them to new opportunities, using internal knowledge mainly in the Microsoft platform. Bracta deepens its knowledge to provide specialized labor to its customers at the best price in the market, a clear cost strategy. Each new project undergoes a detailed analysis of cost, profitability and risk in order to eliminate all risks of the service while still maintaining the best price on the market.

The value configuration clearly happens after the is made to provide the services, then the technical department organize and prepare the resources to deliver of the agreements made with the partner firms to their final customers. There was no mention of quality control over the delivery during delivery.

The value appropriation happens with the client's delivery in time and budget for the end client fulfilling the promises and the realization of the paid invoices for the firm. Also, a part of the profit returns for the employees as bonus.

### **Conclusion**

The case study was quite peculiar, the interview revealed a level of dissatisfaction from the company founder, which is also the firm's CEO and CFO, about the business and the performance when compared with other similar firms' operation in the same market segment. The fact that Bracta exists for more the 20 years and majority of its competitors from the beginning of Bracta no longer exist demonstrate the firm, even experiencing favorable and less favorable times survived. The business diversification that happened making the company Bracta becoming a group of companies demonstrate this firm's ability to succeeded.

During the interview the firm's founder, declared his organization has no ability to sell, they do not know how to do it and at the same time it is concerned to invest into an expensive selling organization. In general terms there is a concern such investment could negative affect the company reserves and not produce the desired goal. However, the founder and his partners want to grow and have an effective and professional selling organization to create and maintain a robust own direct client base and consequently get larger share of the market pie.

The firm's motto is "everything is possible" it is a wide statement that could not easy be translated into what the company really do, on the value proposition it is not really clear what is that Bracta do that would attract new prospects to consider Bracta for a bid, the lack of focus on the services provided is not a good help to solidify the growth they are expecting, what

are the specific services offering (Meirelles, 2019), how they are unique for what customers, what are the uniqueness in terms of knowledge do they bring to the table to provide value for the clients?

Going further on the picture provided by the business model canvas, there is a first issue, there is no clear and multidisciplinary customer relationship strategy and execution, which make difficult to connect the feedback from the value appropriation perceived by the clients providing important information for the value creation process, which could correct and change accordingly to the feedback received. Here perhaps we see not only an important improvement opportunity to propose knowledge exploration bringing from the external clientele but also receive information over the competition operating in different fronts at the same client. On the value creation from sales and marketing investment is important.

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