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BUSINESS ENVIRONMENT ANALYSIS

Written Assignment

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The Global Business Environment (LCBB4005)

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Executive Summary

Overview: Proposal for the creation of a new branch of the US parent company in Europe.

Company: Bethesda Game Studios

New Branch: Bethesda Game Studios – Bulgaria

Problem: Lack of presence on the European and Asian markets.

Solution: Outsourcing a US team to train a newly recruited Bulgarian team in a new office located in Sofia, Bulgaria.

Analysis: Cultural, Geographical, Economical, PESTLE, SWOT, Supply Chain.

Proposal: A full strategy plan that will serve as a core guide for establishing a new branch that will allow the parent company to expand and give access to European and Asian markets in a safe environment which will give time for the new branch to fully develop without the threat of competition.



Microsoft ZeniMax[®]
MEDIA INC.

Introduction

Some scholars would argue that globalisation began when Columbus embarked on his journey in 1492 towards the New World. On this voyage, he would exchange goods, and ideas and bring new knowledge to the people that his expedition would encounter, which in turn would do the same and in the process, both sides would start adopting practices that would either bring innovation or would be adopted out of necessity (National Geographic Society, 2022). Although these events occurred centuries ago and our society had to go through many transformations that would lead globalisation to its current state where we no longer trade basic commodities between merchants but to a point, we trade services and knowledge almost without any major restrictions, but many would say that globalisation blossomed in the 80s of the last century when Kodak began outsourcing most of its information technology systems, thus paving the road for many other companies (NC State University, 2006). By adopting outsourcing as a business model, companies, particularly those in tech or IT, would introduce practices, traditions, and different ways of thinking or seeing the world in foreign countries that prior to that would have their own standards of doing things. Globalization as an event although for the most part brings us closer due to the adoption of cultural traits and practices can also have a negative side. The loss of identity, as some critics would say, is the result of a group adopting such practices by abandoning their own. One such example is the nation of Japan, which underwent a rapid transformation at the end of the 19th century (Japan Experience, 2012). This transition would stir the masses, especially in a country that even today is known for its long-lasting traditions, but eventually, this gruelling process would lead Japan into becoming one of the most globalised countries on the planet.

This paper will examine one such instance of globalisation. “Bethesda Softworks LLC”, a subsidiary of “ZeniMax Media Inc.”, a US-based video game publisher, after its acquisition by “Microsoft” in 2021 (Kim, 2021), is exploring the possibility of expanding to Europe as part of its new development strategy. The particular country that has been chosen as the most suitable location for expansion is Bulgaria due to several factors which will be fully explored and analysed further down in their respective sections of this paper.

Countries

USA



(Smith, 2022)

The United States of America is a country located in North America. With a population of over 333 million (U.S. Census Bureau, 2022), the US is the third most populous country in the world, and some might even consider it the cradle of capitalism due to its multiple multinational corporations worth billions. One sector that is particularly developed is IT, technology and entertainment. The combination of these three has resulted in the birth of the video game entertainment industry, where companies have competed in the market by pushing technological boundaries to bring new ideas and mesmerising projects to the end consumer. Nowadays there have been games in which the cost of production has reached exorbitant amounts of up to \$340 million. For those reasons, "Bethesda Softworks LLC" is looking to expand its operation by outsourcing part of the future projects that were meant to be developed by the 420+ employees of "Bethesda Game Studios", located in Rockville, Maryland, US (Cheng, 2021) to a new company that will be located in Sofia, Bulgaria, due to lower costs.

Bulgaria



(Wikimedia Commons, 2017)

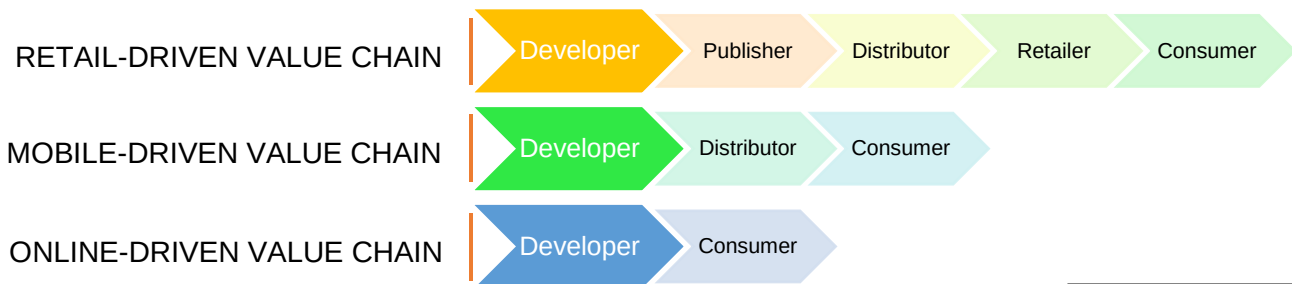
The Republic of Bulgaria is a developing country located in Southeast Europe with a population of 6,7 million (World Population Review, 2022). Neighbouring countries are Romania, Serbia, North Macedonia, and the Black Sea. The capital Sofia is located in the western part of the country and is the largest city in the country with a population of 1,2 million (World Population Review, 2022). The majority of the industry is oriented towards metallurgy with the country producing approximately 10% of the world's hydraulic machinery. Other developed industries in Bulgaria are mining, agriculture and tourism (Omondi, 2019). Although only 2,3% (3,5% EU average) of the population is employed in the ICT sector, Bulgarian IT specialists meet the working standards of US companies (Dimitrova, 2022). In addition, the internet infrastructure allows for fast download and upload speeds both on mobile (ranking 8th worldwide) and fixed broadband networks (ranking 59th worldwide) (Speedtest, 2022). The country's market has almost non-existent competition due to the lack of foreign investment in the video game development industry.

Application of Theories

Political	Economical	Social	Technological	Environmental	Legal
- Political Instability - Persistent Corruption	- Slow Economic Growth - Low Labour Costs - Favourable Macro-Economic Environment	- Highly Talented IT Specialists - Multilingual - Westernised Culture	- Fast Fixed Broadband - Fast Mobile Network	Convenient Geographical Location to Large European and Asian Countries	- Competitive Fiscal Policy - Long Process for Tax Payment

The PESTLE analysis shows the most important points in the targeted country that can have an effect on the implementation of the company's outsourcing strategy.

Supply Chain in Gaming Industry and its Challenges



(Prakash, 2021)

Basing our supply and demand market analysis on a previous work by Sharad Prakash found on LinkedIn (Prakash, 2021) the model of product distribution for the company's future products can be adjusted according to data that will be gathered through several methods:

- Previous products released on the market
- Online surveys
- Future releases
- Comparing other products on similarly behaving markets

Depending on the outcome product release on the market can be adjusted according to the supply chain model above and the more elements are eliminated from the chain the higher the profit at the cost of reduced exposure.

Opportunities and Threats/Challenges

	Helpful	Harmful
Internal Origin	STRENGTHS • Geographical Location • Low Labour Costs • Low Property Costs • Highly Qualified IT Specialists • EU Membership	WEAKNESSES • Lack of Cultural Diversity • Cumbersome Legal System • US Team Must Get Acclimated With Local Culture • Bulgarian Team Must Follow the Same Working Standards As US Counterpart
External Origin	OPPORTUNITIES • No Competition • Proximity to Western European Market • Proximity to Asian Countries • Possibility to Acquire a AAA Studio with previous experience in development	THREATS • Political Corruption • Demand for IT Specialists Might Exceed University Supply • Immigration Policy and Visa

Strengths

- Due to its geographical location, Bulgaria is a perfect candidate country for the development of the new branch of Bethesda Game Studios. Its proximity to large European and Asian countries will allow for the recruitment of a multicultural team of developers.
- The average annual cost of labour in Sofia, Bulgaria for hiring a software engineer is ~\$29,000 (Average Salary Survey, 2022) compared to ~\$82,000 in Rockville, Maryland, US (payscale, 2022).
- The average annual cost of renting a property in Sofia, Bulgaria is ~\$58,000 (Imoti.net, 2022) compared to ~\$336,000 in Rockville, Maryland, US (LoopNet, 2022).
- Due to the existence of many other companies in the Bulgarian market, such as HP, IBM, Microsoft, etc. the level of expertise is on a high enough level to be able to compete on an international level.
- Bulgaria has been a member of the EU since 2007 which gives access to European markets and human resource supply that can travel freely between member states (europa.eu, n.d.).

Weaknesses

- Due to its isolation from the western world before the collapse of the communist regime in 1989, Bulgaria is very culturally diverse. The majority of the population is Bulgarian with large minorities of Turkish, Roma, Armenian, Ukrainian, and Jewish groups in particular parts of the country.
- After the adoption of a new political system, Bulgaria has been struggling to streamline its legal system and bureaucracy and the lack of an e-government initiative can make legal matters a slow and gruelling process.
- Although the country has adopted many western traditions and etiquette, Bulgarian traditions are deeply rooted in its society which makes its population resistant to spontaneous change and also slow to embrace new cultures. Because of this, the team that will be outsourced from the US to Bulgaria will have to get acquainted with the culture and its quirks before their arrival.
- Although Bulgaria can offer very talented IT experts, the work culture could be different and many processes and ways of conducting business will differ from what is the norm in the US, so the US team will need to lead by example and make sure that all members follow the same standards in order to ensure consistency in quality and outcomes.

Opportunities

- Due to its underdeveloped entertainment industry Bulgaria has only one major game development studio which can prove beneficial in terms of recruitment and market share.
- Due to its geographical location Bulgaria is close to large European countries with well-developed video game markets, such as Germany, France, United Kingdom, Italy, etc.
- The proximity of the country to Asia will give us greater opportunities to expand on Asian underdeveloped markets.
- The possibility of acquiring a AAA studio either through a direct offer or a takeover exists. A single major studio exists in Bulgaria that can prove a sound investment and will allow our company and the new team to adapt sooner than predicted.

Threats

- Political corruption has been a major issue in the country even during the communist regime. Although IT is one of the few sectors of the economy that has extremely low levels of corruption, there are other sectors that can prove a threat to a foreign company trying to establish itself there.
- Experts predict that due to poor planning by the “Ministry of Education” the education system will not be able to supply the industry demands with enough IT experts after a certain point.
- Immigration and visa policies might change depending on which sphere of influence the Bulgarian government leans towards or due to other reasons such as COVID-19 regulations.

Barriers

Racism

The country of Bulgaria re-emerged after 5 centuries under the rule of the Ottoman Empire and quickly came under the influence of the Russian Empire. After the collapse of the USSR and the fall of the communist regime in Bulgaria in 1989, Bulgaria came under the influence of Western countries. Due to this ongoing battle Bulgarians have been trying to resist centuries of foreign influence which in turn has resulted in Bulgarians being slow to accept foreign nationalities, mixed-race people, and people of different colour or religion. Although nowadays many people in large cities and especially the capital Sofia are open to new people, there are plenty of others who are still aggressive and racist crime is still something that can be encountered often in smaller towns or villages.



One particular minority that has been involved in racial crimes are the Roma. Football hooligans are well known for their racist and homophobic views in the country.

(Chaudhary, 2019)

Homophobia

Bulgarian conservatism and extreme religious views have caused a surge in crime against the LGBTQ+ community. Unprovoked attacks by street hooligans, organised protests by members of neo-Nazi organisations as well as extremist political parties in Bulgaria such as VMRO, Ataka, BNS-ND, etc. are still widespread and can prove dangerous for a business that is inclusive and welcoming of the LGBTQ+ community.



One such leader of a political party with extreme far-right and homophobic views is Boyan Rasate.

(Mitov, 2021)

Corruption

In a recent research, Transparency International has ranked Bulgaria 78th among 180 countries in terms of levels of corruption and in addition, they have found out that Bulgaria is the most corrupt country in the EU (Transparency International, n.d.). This can be a major deterring force for new on the local market international companies, especially in a valuable niche such as IT. Although corruption has not spread to that particular sector the tendencies show that the government is doing very little to stop it from expanding further even though it has been reprimanded in the past by the EU to no effect of changing the country's course.



Corruption caused by foreign interest has been tearing apart the political stability in the country which has resulted in several temporary governments trying to escape a headlock caused by the previous highly corrupt governing parties. (EURACTIV Network, 2021)

Inflation

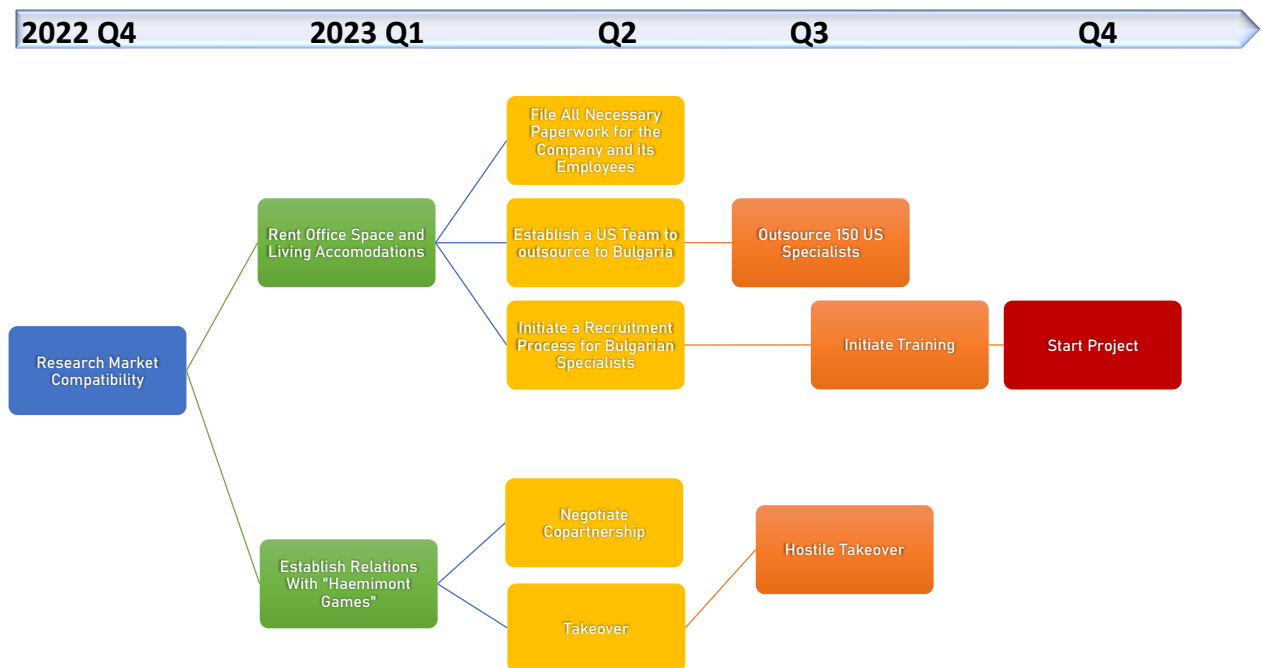
In 1997 the economic crisis in Bulgaria caused by hyperinflation due to government policies leading to a grain shortage resulted in the creation of a Currency Board that would stabilise the country's economy (Gulde, 1999). Although Bulgaria has enjoyed a quarter of a century of economic stability, the current world economic crisis has had a negative impact on Bulgaria as well resulting in an 18,7% of annual inflation rate (Trading Economics, 2022). This will have a negative impact on many aspects such as employee salaries, the cost of renting a property, purchasing capabilities of the population, etc.



Many Bulgarians still remember the harsh winter of 1996 caused by the hyperinflation which also led to the collapse of the government and since then they will be more sceptical about purchasing anything other than essentials during spikes in inflation rates.

(Trading Economics, 2022)

Suitable Strategy



The most suitable strategy for the company to branch out and expand has been divided into five separate phases with a time estimation for each one and the total time required for the full plan to come into effect. The plan will be expanded upon in separate categories below going into detail about each phase.

Phase 1

- The first phase will start in Q4 2022 and it will include an analysis of the market compatibility. Teams will prepare documentation with the necessary steps required to register a foreign company, outsource employees from the US to Bulgaria and look for possible office locations and employee accommodations.

Phase 2

The second phase is comprised of two steps that will be implemented in parallel.

- Company representatives will prepare the necessary renting agreements prior to the arrival of the outsourced team and will have the task to equip the office spaces and living accommodations with the pre-agreed necessary equipment either with locally purchased equipment or equipment shipped from the US.
- Company representatives will establish relations with the already established on local and global market Bulgarian game development studio "Haemimont Games".

Phase 3

Phase three will include the most steps taken, five in total, branching out from the two steps taken in the previous phase.

- All necessary paperwork for the registration of the company and its US employees to be able to operate in the country will be filled out prior to the arrival of the outsourced team.
- Establish a US team either from current employees or recruit new employees for the particular task of being outsourced to Bulgaria and prepare them for the forthcoming move.
- Initiate a recruitment process in Bulgaria with a heavy emphasis on marketing. Job advertisements should be posted on all job boards, other smaller game development studios can be contacted and universities can assist in recruiting new graduates. A document with approximately 250 positions will be issued to the recruitment team.
- Negotiate a co-partnership with “Haemimont Games” with the idea of employee exchange or coproduction of a future product.
- If negotiations prove unsuccessful, a takeover will be attempted by offering a buyout to the board of directors of “Haemimont Games”.

Phase 4

Phase four is the most difficult of all phases due to the relocation of a large group of employees. This phase is the last of the preparation phases before resuming normal operational parameters.

- The relocation of a pre-selected and prepped team of ~150 employees will begin in Q3 2023. A team will welcome the new arrivals and help them with their on-site needs until they are fully established.
- After their arrival training of new Bulgarian employees will begin. The new employees will learn the code of conduct for the newly established branch in order to ensure compatibility between the main company and the branch.
- If the offer for co-partnership or the negotiations with the board of directors for the acquisition of “Haemimont Games” fail, the US branch of “Bethesda Game Studios” will attempt a hostile takeover by going directly to the company’s shareholders.

Phase 5

- Final step of the strategy is to start the development of a preapproved project by the head office and it will be developed under the supervision of the US team by Q4 2023 if there were no delays during the previous phases.

Conclusion

By using several models for analysis and conducting extensive research this document outlines the clear benefits of branching out and outsourcing part of the US-based “Bethesda Game Studios” to Sofia, Bulgaria. Analysis shows that the lack of development in the Bulgarian video game development industry will be beneficial for such a strategy to unfold risk-free and allow the main company to set foot both in Western Europe and Asia for a very low cost. The development strategy if followed precisely and in a timely manner will serve as a guide and could be reworked if complications arise along the way. The main company will monitor the progress and discuss and approve necessary corrective actions. In future when the new branch has proven successful and profitable, the US team will be offered the possibility to either stay with the Bulgarian branch or return to the main company. Other necessary documentation refer to by this document will be provided to the relevant company employees when the time arises.

Thank you!

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