EVADING OBSOLESCENCE:
A STRATEGIC GROWTH ANALYSIS FOR A SMALL BUSINESS UNIT
THAT CURRENTLY EXISTS WITHIN A LARGE CORPORATION

by

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION

In the
Faculty
of
Business Administration

Management of Technology

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SIMON FRASER UNIVERSITY

Fall 2006

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ABSTRACT

Group X is a new strategic group of a well-known telecommunications corporation in Canada that is introducing a suite of employee performance evaluation and enhancement software to the Web-based e-HR industry. This analysis aims to assist Group X in understanding their competitive environment and to identify, analyze and compare key strategies for the company as they attempt to enter and ultimately sustain themselves in the Web-based e-HR industry. To this end, this paper includes a detailed competitive analysis for Group X as well as an exploration of alternative ownership and organizational structure scenarios. Additionally, this paper provides an external and internal analysis along with a customer analysis for completeness. All supporting information was gathered from secondary-level research and from Group X itself.

Keywords: Competitive analysis; Employee Performance Management; Growth analysis; Human Capital Management; Strategic analysis; Web-based e-HR

Subject Terms: Personnel management -- Computer network resources; Industrial management; Competition; Strategic planning; High-technology -- Marketing
DEDICATION

This is dedicated to my wife, Janel for her unwavering support, divine patience and
tireless devotion...and to my son, Shay, for always inspiring me to transcend my former self.
This is also dedicated to my parents, George (deceased) and Angela for their love and
unconditional encouragement and to my sister Sarah for her generosity and her ever-absolute
faith in my abilities.

Ian D. Joseph.

To the two persons in my life... my daughter Polly, who is my inspiration and sunshine,
for understanding that her Mom couldn't always be there; and to my husband, Ganrong, who is
my spirit harbour, for consistently providing support and encouragement.

To my parents, Zhijian and Lijuan, who are my life-long teachers, for offering me whole-
hearted love and making my world more meaningful.

Qingbo Wu
ACKNOWLEDGEMENTS

"...we are like dwarfs on the shoulders of giants, so that we can see more than they" – Bernard of Chartres.

First, I would like to thank Dr. Aidan Vining and Dr. Colleen Collins-Dodd for their support and valuable insight. Your guidance was delivered with kindness and patience and I thank you for setting such a wonderful example. You have inspired me to strive for comparable academic achievements and to pay equal attention to developing patient humanity towards those who thirst for knowledge.

I am also abundantly grateful for the encouragement and guidance that our project sponsor and his team provided us throughout the writing of this paper.

Additionally, I would like to thank the many “giants” that we have cited in our writing. Their body of work raised us to previously unimaginable heights of understanding as we tackled this paper and for that, we are very grateful.

Finally, I would like to acknowledge Anne Laird, Nicky Smart, and Francine Mayrand for the competent and affably-delivered help they provided throughout the year. Very specially, I would like to acknowledge Gord Rein since he was the one who took the time to provide me with valuable counsel when I was first considering the MBA. Moreover, I would also like to thank him for his genuine selflessness in providing our cohort with reassurance when we felt insecure, encouragement when we felt discouraged, and time even though he had very little of it.

Ian D. Joseph

*

I am grateful for my supervisory committee, consisting of Dr. Aidan Vining and Dr. Colleen Collins-Dodd, who provided incisive and thoughtful feedback and guidance throughout this project. I adopted the framework for this project from Dr. Aidan Vining’s strategic analysis paper. His swift and meaningful feedback has served to increase my respect for him. Dr. Colleen
Collins-Dodd graciously directed me from the first day I joined the MBA program, through to the completion of this project. She has dedicated herself to student’s success.

I would like to extend my gratitude to my project sponsor, the manager of Group X, and his team members for their kind help and hospitality. In particular, I appreciate the time and expertise that Group X’s manager afforded me.

Finally, I wish to thank two administrative staff members with the MOT MBA program, Anne Laird and Francine Mayrand, for their assistance and generosity. My thanks to everyone who has helped me.

Qingbo Wu
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1 OVERVIEW OF STRATEGIC ANALYSIS FOR GROUP X OF COMPANY ABC

1.1 Purpose of Analysis

Group X Business Solutions (hereafter referred to as “Group X”) is a new strategic group of a well-known telecommunications corporation in Canada. It is introducing a suite of performance management and development products and services called Performance Workforce Solutions (PWS) to the Web-based e-HR industry. At this moment, Group X’s managers need to define what entry strategies the company should develop in order to enter the “competitive war” and win.

PWS is a fully web-enabled and web-hosted solution for the development of a high performance organization. The parent corporation (in order to distinguish between the corporation and the business unit, hereafter the corporation is referred to as “Company ABC”) of Group X has a formidable track record in North America for their comprehensive telecommunications product offering reflected in their impressive results in sales and financial returns. Clearly therefore, Group X’s new HR-focused offering comprises a set of products in an industry far removed from what Company ABC is currently involved in.

The purpose of this paper is to provide the managers in Group X with a strategic analysis for their new offering (PWS). This analysis has a dual focus: (1) Competitive Analysis - to assist Group X’s management in understanding and clarifying the competitive environment that they compete in and (2) Growth Analysis: to identify, analyze and compare key market-entry strategies for the company as they attempt to enter the Web-based e-HR industry. These strategies are aimed at enabling Group X to build up a sustainable advantage in that industry and ultimately to enable them to grow and succeed in the Canadian market.
With respect to a competitive analysis, here are a number of key objectives: (1) scrutinize the industry and identify key competitors of the product and service, (2) compare the similarities and differences between Group X's products and the competitor's, (3) develop product and customer positioning maps in terms of outcome-based segmentation, and (4) define competitive dimensions and metrics. Gaps in Group X's competitive offering will drive the final recommendations.

With respect to a growth analysis, here are a number of key objectives: (1) analyze Group X's existing business model, growth strategy, and products, (2) perform a thorough analysis of their strengths and weaknesses based on their value chain, and (3) research and propose an appropriate growth strategy based on their future objectives. The identified growth alternatives that best compensate for Group X's deficiencies will be the foundation of the final recommendations.

1.1.1 e-HR Industry Overview: Emphasizing the Importance of Human Assets to Business Success

There are several factors that can become a source of a competitive advantage for a particular firm. Cutting-edge technology, the possession of scarce resources, or the utilization of a high-profile information system can all help. Over time, however, competitors may succeed in copying the technology, finding alternative resources, or imitating the IS application respectively. Clearly therefore, only human assets can offer a competitive advantage that is not short-lived or easily imitated by other firms. Gubman reports: “In many fast-growing economies, it may be easier to access money and technology than good people. Competitive advantage belongs to companies that know how to attract, select, deploy, and develop talent” (1998, p. 12). So, upon realizing the value of building a strategic HR asset, many organizations seek methods and practices through information technology to help them build their competitive human resource capabilities.
Where business is concerned, whenever there is demand, a new industry will evolve and expand. From Legacy Systems to Enterprise Resource Planning (ERP), HR information systems have taken a big leap. While several global Business Intelligence software giants such as SAP, PeopleSoft, Oracle, Lawson, and Baan all continue to compete in this market, certain deficiencies and drawbacks of ERP systems have been noted. The expense, complexity and time requirements have all caused many companies to halt the installation of their ERP system. In addition, many users are dissatisfied with the functions of their traditional HR software (Walker & Perrin). This includes not only those with ERP systems, but also those with other traditional Human Resource Management (HRM) systems. As a result, a new industry, the Web-based e-HR industry, has emerged.

Compared with old technologies, a web-based system appears attractive. Not only are the systems visually appealing, but also implementation times for applications can be shortened dramatically. What used to take months or years can now be accomplished in days or weeks. Furthermore, the technology involved, such as HTML, Visual Basic, and SQL logic, are relatively simple and easy to understand. However, the potential rapidity of implementation emerges as only the most immediate advantage of e-HR over traditional HRM systems. In this paper, we will look at other advantages that emerged from our research findings.

1.2 Scope of Analysis

Generally, this paper will provide a detailed competitive analysis for Group X as well as an exploration of alternative ownership and organizational structure scenarios i.e. Spin-off, Status Quo or Strategic Partnerships for Group X. Additionally, this paper will provide an external and internal analysis along with a customer analysis to enhance the foundation of the structural and positioning recommendations.
More specifically, this paper will identify key competitors in the Canadian market for the PWS product and provide a general analysis of these competitors. This includes an internal analysis in order to help define the company's competencies and resources, and see how appropriate Group X's value chain is, particularly concerning the product of interest. Furthermore, the paper will develop a competitive canvas for Group X and identify areas where the company can possibly break free from the competitive pack (Kim and Mauborgne, 2005). Finally, based on the aforementioned analysis, the paper will look at strategic growth alternatives and deliver practical recommendations for Group X.

1.3 Methodology and Structure

As a foundation to this work, the authors will collect and utilize Group X's existing data about themselves and their operations. Additionally, the authors will conduct secondary-level research towards providing the reader with clear and definitive recommendations for Group X.

Towards this end, the organization of the document is as follows. After a basic “big picture” presentation in Chapter 1, Chapter 2 will introduce Group X with details on its background, the products it produces and its major customers. Next, Chapter 3 presents an analysis of Group X’s industry i.e., the Employee Performance Management industry. Chapter 4 will explore Group X’s internal characteristics such as their tangible and intangible assets, their organizational structure, and an overview of their supply chain management practices. Finally, this chapter will include a Sustainability Analysis for Group X which examines whether the perceived advantages of the firm are vulnerable to the forces of competitive erosion (imitation or substitution) or appropriation (hold-up by stakeholders, or internal slack).

Chapters 5 to 7 will then utilize the findings of chapters 1 to 4 to provide a clear understanding of Group X's current strategy and lead to certain innovative and reasonable strategic alternatives. Chapter 5 summarizes Group X’s current strategy and fit between and
among various level of strategy. In addition, this chapter identifies the problems Group X will encounter in the future under the status quo and illustrates how serious these problems will be. Finally, Chapter 6 presents the whole evaluation process for all proposed strategic alternatives. At the end of this chapter, provides recommendations based on the evaluation outcomes. Chapter 6’s recommendations are key deliverables to Group X and all work in prior chapters lends support to the findings of Chapter 6.
2 INTRODUCTION TO GROUP X

2.1 Background of Company ABC and Group X

Company ABC Communications Inc., the parent corporation of Group X, is one of the largest and best-known telecommunications companies in Canada. In 1999, a merger resulted in the formation of Company ABC. Currently, Company ABC provides a full range of telecommunications products and services including local and long distance services, data services, and Internet services to both residential and business customers. In the Non-ILEC (Incumbent Local Exchange Carrier) territories, Company ABC provides data, IP and voice solutions to business customers. The company is staying ahead of competition (i.e. technology and services) through a consistent strategy focused on national wireless, data, and IP growth (Company ABC’s Annual Report, 2005). The company’s strategic intent is to offer the best solutions to ubiquitous markets in Canada by leveraging Internet technologies (Company ABC’s Annual Report, 2005).

Since 2000, this high growth strategy has led to the considerable success with acquisitions and mergers. At the same time, the company underwent a business transformation from monopolistic status to being a player in a more competitive environment. Today, company ABC is fast becoming the benchmark for business excellence in provincial, national and international arenas. Their growing list of achievements is evidence of the respect and recognition of the company’s team. Specific to Group X, for example, Company ABC has received a number of well-known international HR awards, such as the Thompson NETg Illuminati Award 2004 & 2005 for “Best Leadership Development Program” and the Award of Excellence by B.C. Human Resources Management.
Management has organized Company ABC into Customer Facing Business Units (CFBUs). Each CFBU focuses on its own target segment of the marketplace, and is responsible for meeting revenue targets and annual objectives; Group X resides under the Business Solutions business unit. Primarily, the Business Solutions Unit services small to medium-sized business customers and Group X is responsible for commercializing the new PWS product.

Group X came to be when Company ABC’s Business Solutions customers became aware of ABC’s remarkable ability to perform at their best during times of major upheaval brought on by mergers. These companies solicited the help of Company ABC to help their own workers to be as motivated and productive as Company ABC’s workers were and so the Business Solutions group began working on a High Performance Workforce Solutions (PWS) product to help their new customers achieve their goals. Due to its Human Resource focus, however, PWS did not fall in line with Company ABC’s then-current business profile. The implications of this major issue and other issues will be explored in subsequent sections of the paper. An overview of the products that encompass Group X’s major offerings under the PWS set of solutions follows.

2.2 The Product: Performance Workforce Solutions (PWS)

2.2.1 Overview of the Product: PWS

Company ABC’s IT professionals originally developed this integrated suite of performance management, learning & development, and engagement products & services for internal, corporate-wide use. The suite has been used and continuously improved since 2000. The applications include the following functions: setting performance objectives and reviewing performance appraisals and assessments, 360 feedback and survey, reward and recognition, mentoring, succession management, online e-Learning and classroom course registration, as well as online curriculum planning and evaluation. Figure 2.1 displays the main menu interface of the product.
Positive stories about Company ABC’s award-winning human resource practices and its recent transformation successes quickly spread through word-of-mouth and the national business community. This led to several high-profile customers approaching Company ABC and asking for help in building a performance-based culture via Web-based e-HR technology. The goal was to mesh the applications created by Company ABC into their own organizations. In order to work effectively with these innovative customers, Company ABC set up the PWS team - Group X Business Solutions - to commercialize the product.

The developers in Group X have made a few technical changes and improvements in such areas as security, integrity, and configurability in order to bring PWS into the market. As of August 2006, PWS consists of ten modules/products (see Figure 2.2). Group X offers these in their Internet Data Centre (IDC) shared hosting environment as a managed service. Customers can purchase the Performance Management, Development and Learning or Engagement modules as an integrated offering; however, for bundling flexibility, customers must select three or more.
products. Regardless of the modules selected, Group X delivers the applications in a fully-hosted and managed environment. In addition, Group X provides full lifecycle services for these solutions including requirements validation, fit/gap implementation, customization, enhancement, managed hosting, and ongoing support and maintenance. The solution is ideal for companies with 250 or more employees in order to take advantage of human capital as a source of competitive advantage and differentiation cost-effectively. Group X classifies the ten modules/products into two product lines: (1) Performance Management: including e-Performance, e-360° feedback, e-Recognition, e-Survey, and e-Succession (2) Employee Development (Learning Management): including e-Learning and e-Mentoring (3) Others including Employee Directory, Issue Tracking, and Job Database. The following gives a detailed explanation regarding the functions of the individual modules/products (Group X, 2005).

Figure 2.2: The PWS Suite
**Employee Directory**

This application provides an easy way to access a centralized source of information. It ranges from personal employee information to hierarchical branches within your organization.

The employee directory is based on the Central Employee Database (CED), which provides a framework for all of the various PWS applications i.e. all PWS installations must have CED included. CED houses all of the company's employee data, including organizational structure, skills, services and administrative duties within the organization. Information is extracted from the CED and communicated within the system based upon the relationship of data within the CED.

**Performance Management**

This application allows employees to create, update and maintain their performance plans. The Performance Management file consists of three major sections: set objectives using the Personal Performance Objectives (PPO); create and amend development plans via the Customized Career Development plan (CCDP); and assess the Personal Performance Review (PPR) provided by corresponding managers.

**360° Feedback**

The e.360° web application allows employees to identify their strengths and areas for improvement by soliciting feedback from others. The e.360° feedback process involves sending a questionnaire to one's manager, peers, direct customers and internal customers and asks for specific feedback on certain behaviours.

The main features of 360° Feedback are: (1) Registration and invitation of participants for feedback via a survey (2) Response to survey (3) Selection of survey time-period (4) Ability to view survey results.
**Survey**

This application enables administrators to create and distribute custom surveys across the organization in order to gauge employee’s attitudes and perceptions. Through an automated system, employees receive, complete and submit surveys online. The system guides survey administrators through an online set-up process that uses standard survey methodology.

**Recognition**

This is a company-wide recognition program that allows employees to recognize the extraordinary efforts and outstanding performance of fellow team members and nominate them for awards. With this tool, users will be able to give and receive recognition.

**Succession Management**

With this tool, managers are able to identify individuals within the organization to take their place in the event that the manager is promoted, retires, or otherwise leaves the organization temporarily or permanently.

**Learning Gateway**

The Learning Gateway helps manage the distribution of the company’s learning contents and track all e-learning and in-classroom learning activities in the organization. It also provides employees with a point of access to courses and development resources from their desktop. In addition, this highly-configurable and customizable solution supports the “develop” stage of the Performance Management module for any specific company’s learning needs.

**Mentoring**

The application allows users and mentors to collaborate. Here, mentors provide strategic counsel, guidance and direction to users towards achieving a specific career goal. With this tool, users will be able to find, establish, and track mentoring partnerships easily online.
Issue Tracking

The e-Track application provides the user with an automated tracking system for issues, change or enhancement requests as well as general questions.

New Job Database

This application is a reference for all employees within the organization to look up all job descriptions for positions available in the organization. This tool can help employees to stop thinking of their work as merely a job, and start thinking about growth within the organization.

2.3 PWS Customers

Currently, Group X targets medium (100–499 employees) to large-sized (above 500 employees) service industry organizations in the Canadian market (i.e. Fortune 500 Canadian organizations). Although PWS is very generic and applicable to cross-industry firms, Group X is interested specifically in public, energy, and retail industries because it perceives that there are more knowledgeable workers working in these industries.

All current customers of Group X’s PWS products are clients of its parent corporation, Company ABC. While these “innovators” or “early adopters” (from a technology adoption life-cycle point of view) are all incubators of service sectors, they actually represent various industries according to NAICS (North American Industry Classification System) Codes. These range from fashion retailers and telecommunications companies to insurance firms and call centers.

PWS’ clients are typically fast-growing companies with over 500 employees that are most likely (but not always) involved in mergers and acquisitions. However, the most important common feature of these clients is that their top management has the intention and commitment to build their competitive advantages via strategic human resources management. In particular, they shape their corporations’ culture and behaviour by using a proven best-breed HR practice i.e.,
Group X's employee performance management solution - PWS. Company ABC's HR success story was a key determinant for their present clients in these customers' evaluation and purchasing decisions concerning PWS.

In addition, another noteworthy trait is that all these firms had some form of transactional HR management systems before they pursued Group X's PWS solutions. For example, client PCB has PeopleSoft, and client HR has employed compensation software purchased from Ceridian. The PWS solutions are not only compatible with clients' original HR systems, but they are also applicable to companies that do not currently have an HR management system in operation.

2.4 PWS Product- Customer Matrices

2.4.1 The Firm-Specific Product-Customer Matrix (PCM)

Product-Customer Matrices (PCMs) are useful and effective tools to present information about Group X's products, customers, and the segments Group X is currently competing (Boardman and Vining, 1996). Table 2-1 shows PWS by customer segment. We have segmented the customers by their industry, size, and geographic location. This simple example of PCMs indicates that Group X mainly competes in the Employee Performance Management (EPM - including Succession Management) Software industry and the Learning Management System (LMS) Software industry in the Canadian market. Both EPM and LMS industries are subsets of the e-HR industry. According to Bersin (2006), the traditional LMS and EPM industries are converging, and the new term “Talent Management” would be better to describe both LMS and EPM solutions. Table 2-1 also reveals that Groups X's customer segments mainly comprise large organizations (over 500 employees) in the service sector within Canada (so far only one out of seven customers is outside of Canada).
### Table 2-1: Group X’s Product-Customer Matrix – Firm-Specific

<table>
<thead>
<tr>
<th>Customer</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Canada</td>
</tr>
<tr>
<td>Service Industry</td>
<td>Service Industry</td>
</tr>
<tr>
<td>Size: the number of employees</td>
<td>Size: the number of employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Products</th>
<th>1–499</th>
<th>500–999</th>
<th>1000–4999</th>
<th>5000+</th>
<th>1–499</th>
<th>500–999</th>
<th>1000–4999</th>
<th>5000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPWS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CED</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Performance Management**

- e-Performance: BL, PBC, TSS, HR, KT, and AS
- e-360°feedback: PBC, ON, HR
- e-Recognition: ON, HR
- e-Survey: ON, HR
- e-Succession: HR

**Learning Management**

- e-Learning: PBC, KT, HR
- e-Mentoring: PBC, KT, HR

Current Customers: BL, PBC, ON, TSS, HR, KT, and AS

Based upon Boardman and Vining 1996

#### 2.4.2 The Business Product-Customer Matrix

The aforementioned firm-specific PCM does not indicate who the company’s competitors are within each product-customer segment in terms of industry, market, or core competencies. Constructing a business PCM based on industry-oriented characteristics, market-oriented characteristics, and core competencies could help in this regard (Boardman and Vining, 1996).

Table 2-2 is Group X’s industry-oriented PCM. The table indicates not only all PWS products by customer segments but also where competitors have similar products and services. However, it is worth noting that the competitors shown in Table 2-2 only include firms that are in the same industry i.e., the EPM industry. They are all direct competitors of Group X. These competitors are identified based on the report titled “Market Scope for Employee Performance Management Software, 2005” issued by Gartner (Holincheck, 2006) and in IDC’s analysis report (Pang, 2005).
### Table 2-2: Group X’s Product-Customer Matrix – Industry Orientation

<table>
<thead>
<tr>
<th>Products</th>
<th>Customer</th>
<th>Service</th>
<th>Manufacturing</th>
<th>International</th>
<th>Service</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td>Canada</td>
<td>Small firms (100-439)</td>
<td>Medium firms (500-4998)</td>
<td>Large firms (5000+*)</td>
<td>all sizes</td>
<td>Small firms (100-500)</td>
</tr>
<tr>
<td>HPWS I</td>
<td></td>
<td>S</td>
<td>X, S</td>
<td>S</td>
<td>S</td>
<td>X, S</td>
</tr>
<tr>
<td>CED</td>
<td></td>
<td>S</td>
<td>X, S</td>
<td>S</td>
<td>S</td>
<td>X, S</td>
</tr>
</tbody>
</table>

**Performance Management**
- e-Recognition: X

**Learning management**
- e-Mentoring: K
- e-Mentoring: K
- e-Mentoring: K

X: the focal firm (Group X)
A: 27 main suppliers of the industry
K: Kenexa
W: WorkScapes
S: Softscape
M: MindSolve
O: Oracle
P: Oracle PeopleSoft

Based upon Boardman and Vining 1996

Table 2-3 shows the competitors of PWS’ substitutes. This table shows that a Microsoft Excel Spreadsheet, in-house development software, and outsourced workloads are all substitutes for PWS solutions.

Table 2-4 indicates the competitors who have the same core competencies as Group X in the EPM industry. In other words, these are the most likely potential competitors of Group X. According to an IDC analysis report, the other three Human Capital Management (HCM) segments - Incentive Management, Workforce Management, and e-Recruiting - all claim to share common characteristics with Performance Management vendors. If customers cannot understand the true scope as well as the limitations of these products, vendors will end up losing the opportunity of delivering complementary solutions to expand the overall market. See Chapter 3 for a detailed industry analysis (Pang, 2005).
### Table 2-3: Group X's Product-Customer Matrix – Market Orientation

<table>
<thead>
<tr>
<th>Products</th>
<th>Service (100-499)</th>
<th>Service (500-49999)</th>
<th>Manufacturing Service (100-499)</th>
<th>Manufacturing Service (500-49999)</th>
<th>Manufacturing Service (&gt;5000)</th>
<th>Manufacturing Service (&gt;5000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small firms</td>
<td>Medium firms</td>
<td>Large firms</td>
<td>Small firms</td>
<td>Medium firms</td>
<td>Large firms</td>
</tr>
<tr>
<td></td>
<td>(100-499)</td>
<td>(500-4999)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
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<tr>
<td>HPWS I</td>
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<tr>
<td>CED</td>
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</tr>
<tr>
<td><strong>Performance Management</strong></td>
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<tr>
<td>e-Performance</td>
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<td></td>
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<tr>
<td>e-360°feedback</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>e-Recognition</td>
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<tr>
<td>e-Survey</td>
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<tr>
<td>e-Succession</td>
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</tr>
<tr>
<td><strong>Learning management</strong></td>
<td></td>
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<td></td>
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<tr>
<td>e-Learning</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>e-Mentoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Substitutes:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>no performance management systems</td>
<td>V</td>
<td>V</td>
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</tr>
<tr>
<td>Paper</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
</tr>
<tr>
<td>Microsoft Word or Excel</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
</tr>
<tr>
<td>In-house developed software</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>V</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>V</td>
<td></td>
<td>V</td>
<td>V</td>
<td></td>
<td>V</td>
</tr>
</tbody>
</table>

Based upon Boardman and Vining 1996

### Table 2-4: Group X's Product-Customer Matrix – Core Competencies Orientation

<table>
<thead>
<tr>
<th>Products</th>
<th>Service (100-499)</th>
<th>Service (500-49999)</th>
<th>Manufacturing Service (100-499)</th>
<th>Manufacturing Service (500-49999)</th>
<th>Manufacturing Service (&gt;5000)</th>
<th>Manufacturing Service (&gt;5000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small firms</td>
<td>Medium firms</td>
<td>Large firms</td>
<td>Small firms</td>
<td>Medium firms</td>
<td>Large firms</td>
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<tr>
<td></td>
<td>(100-499)</td>
<td>(500-4999)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
<td>(&gt;5000)</td>
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<tr>
<td>HPWS I</td>
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<td>CED</td>
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<tr>
<td><strong>Performance Management</strong></td>
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<tr>
<td>e-Performance</td>
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</tr>
<tr>
<td>e-360°feedback</td>
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<td></td>
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</tr>
<tr>
<td>e-Recognition</td>
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<tr>
<td>e-Survey</td>
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<tr>
<td>e-Succession</td>
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<tr>
<td><strong>Learning management</strong></td>
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<tr>
<td>e-Learning</td>
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<tr>
<td>e-Mentoring</td>
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</tr>
</tbody>
</table>

Based upon Boardman and Vining 1996

To further verify and classify the competitors initially identified using PCMs only, we now apply Bergen and Peteraf's framework as presented in Figure 2.3. The authors define
market commonality as "the degree to which a given competitor overlaps with the focal firm in terms of customer needs served" (Bergen and Peteraf, 2002, p.158). Furthermore, they define resource similarity as, "the extent to which a given competitor possesses strategic endowments comparable in terms of type, to those of the focal firm" (Bergen and Peteraf, 2002, p.158). Because of the combination of PCM analysis and this framework, Table 2-5 shows the main competitors of PWS. For a more detailed competitor list, please refer to Appendix A.

Figure 2.3: Mapping the Competitive Terrain

![Diagram of Competitive Terrain]

Source: Bergen and Peteraf 2002, p.158
Table 2-5: Competitor List

<table>
<thead>
<tr>
<th>Types</th>
<th>Vendor Names (partial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect competitors</td>
<td>Microsoft Word or Excel, in-house development software, outsourced workloads, no system</td>
</tr>
<tr>
<td>Potential competitors</td>
<td>Kronos, Workbrain, MDSI, Witness, KabaBenzing, Taleo, Yahoo/kesumix, Virtual Edge, Ochimes, Peopleclick, Callidus, Synygy, Centive, Bell Canada</td>
</tr>
</tbody>
</table>

2.5 Summary

This chapter provides a broad overview and background introduction of Group X, its parent corporation, Company ABC, Group X’s product, PWS solutions, and Group X’s current customers. As a new entrant, Group X will mainly compete with vendors in the Employee Performance Management (EPM) industry, a sub-industry of Human Capital Management (HCM). In order to understand Group X’s business and competition, we present Product-Customer Matrices (PCMs) and describe three different competitor types (direct, indirect, and potential) to that end. Chapter 3 will explore the EPM industry and competitive forces, examine key competitors, and delineate a strategic canvas for Group X. The industry analysis and competitive analysis will form the basis for structural and positioning recommendations at the end of this paper.
3 A COMPETITIVE ANALYSIS OF THE EPM INDUSTRY

3.1 Purpose of This Section

The purpose of this section is two-fold: first, to define and examine the attractiveness of the Employee Performance Management (EPM) industry and second to identify and analyze Group X’s positioning strategy via Blue Ocean Strategy framework. Such a detailed analysis of both the industry and its competitors aims to assist Group X to formulate a competitive positioning strategy for entering and creating new growth within the EPM industry.

This section first examines the evolution of the EPM industry, as well as how its boundaries are articulated. Then, following a brief assessment, the paper presents an industry competitive analysis based on Porter’s five-Force model (Porter, 1980). Competitive analysis includes details on the makeup and magnitude of the five forces that exist in the market: rivalry, buyers, suppliers, new entrants into the market, and substitutes for market offerings. In order to define the competitive dimensions and metrics, the paper also explores the top 12 competitors of the industry. In addition, the final part of this chapter will develop a strategy canvas for PWS solutions and explore a Blue Ocean idea for Group X. A short summary will conclude the overall analyses of this section.

3.2 Define Group X’s Industry: The EPM Industry

In order to determine the proper definition of the industry that Group X is entering, revisiting the PWS Product-Customer Matrices (PCMs) in Section 2.4 of this paper is useful. The firm-specific PCM and three business PCMs (industry-oriented, market-oriented, and core competency-oriented) all help to define the boundaries of PWS solutions. A close examination
of these PCMs reveals that the PWS solutions are mainly competing in the EPM segment (industry).

In addition, the explicit description for the functionalities of EPM software offered by two of the most authoritative and well-known analytical organizations in North America, Gartner and IDC, also leads us to the same conclusion. Gartner defines the functionalities of typical EPM software as follows: (1) Goal and objective management, (2) Competency management, (3) Appraisal management, (4) Assessment management, (5) Manager support tools, (6) Mentoring/coaching, (7) Career planning integration, (8) Learning/development planning integration, (9) Succession planning integration, (10) Compensation planning integration, (11) Position management, (12) Workflow, and (13) Reporting / analytics (Holincheck, 2005, Section 3.0).

IDC and Bersin & Associates both classify EPM software in a very similar way to Gartner. Appendix B provides IDC's definitions regarding Performance Management, Workforce Management, e-Recruiting, and Incentive Compensation as these functions are closely related.

Therefore, from Gartner and IDC's descriptions of the EPM industry, the PWS suite falls into this industry's boundaries perfectly. The definitions provided by both of these professional industrial analysts are consistent with the conclusion derived from the study of Group X's PWS Product-Customer Matrices.

### 3.3 Overview of the EPM industry

#### 3.3.1 The Emergence of Human Capital Management (HCM)

As mentioned at the beginning of this paper, there is increasing awareness in the worldwide business community that the key to an organization's success depends on its "people
assets.” This is considered the only sustainable source of competitive advantage. While many motivated organizations rush to transfer their once-clerical human resources into more strategic functions to build their competitive competencies, they often find that they cannot achieve their goals without the help of a technology platform. Such a platform not only automates their transactional processes such as payroll, time and attendance, and benefits, but it can also automate many strategic employee-related processes. These include Performance Management, Learning & Development Management, Recruiting, and so forth. Web-based technology is a very effective enabling technology to assist these organizations in accomplishing HR transitions. The emergence of this technology further stimulates and accelerates the process of transformation of traditional HR from payroll and record keeping to a strategic, people-focused one. Patterson and Solow conclude, “Leveraging HR technology, particularly its self-service capabilities, is a critical element transforming the HR function” (Patterson and Solow, 2004, p.1).

The Corporate Leadership Council describes HR’s tasks using a pyramid model shown in Figure 3.1. Based on this model, transformation should move the focus of HR upward to the top of the triangle.
As the interest in managing critical human capital resources grows, together with the rapid development of Web-based technologies, a new term—HCM (Human Capital Management)—is replacing the traditional Human Resources Management System (HRMS). HCM is enjoying widespread popularity currently, and another new term, Talent Management is emerging. Figure 3.2 shows how new HR software industries continuously evolve and expand from one industry into eight business sectors ranging from payroll processing to e-Recruiting and performance management. The history of HCM software indicates that untested new market space is being continuously explored. In Kim and Mauborgne's words, "...the market universe has never been constant; rather, blue oceans have continuously been created over time" (2005, p.5).

Since the industry is new, there is no formal or standard definition for HCM. IDC clarifies that the HCM applications market is comprised of the following components: Core HR, Payroll Processing, HR Performance Management, Incentive Management, Workforce Management, e-Learning, and others (Pang, 2005). (See Figure 3.2.)
Figure 3.2: Evolution of e-HR

The HCM industry has experienced unexpectedly rapid expansion. According to AMR Research reports released on August 15th, 2006, HCM is one of the fastest growing enterprise application segments (Reilly, 2006). The growth rate in 2006 is 10%, while the core ERP market is expected to grow at only 3%.

Figure 3.3 shows the 2004 licence and maintenance revenues of HCM user markets. Large enterprise customers with 5,000 or more employees comprise over 50% of the total HCM revenue. Table 3-1 presents the top three HCM vendors ranked by 2005 HCM Revenue. Oracle was the leader among HCM vendors, holding a 26% HCM vendor market share in 2005. This compares to SAP’s 23% and Kronos’10%. The top three vendors make up almost 60% of the total HCM market. In 2006, the gap between Oracle and SAP is expected to diminish significantly according to an AMR Research Director who predicts, “It will be a neck and neck race between these two rivals this year” (Reilly, 2006).
Figure 3.3: Breakdown of the 2004 Licence and Maintenance Revenues of Worldwide HCM Applications Markets by Class of Users (USD$M)

- HCM for large enterprises with 5000+
- HCM for midsized enterprises with 500~4999
- HCM for small companies with 500+
- Others (e-Learning, Workers' Compensation)

Data Source: IDC Pang, 2005

Table 3-1: HCM Vendors Ranked by 2005 HCM Worldwide Revenue (incl. est. '06 growth).

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oracle</td>
<td>324</td>
<td>1395</td>
<td>1534</td>
<td>7%</td>
<td>26%</td>
<td>25%</td>
<td>331%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>SAP</td>
<td>1122</td>
<td>1268</td>
<td>1433</td>
<td>23%</td>
<td>23%</td>
<td>24%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>3</td>
<td>Kronos</td>
<td>460</td>
<td>528</td>
<td>585</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>13%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Data Source: AMR Research Reilly, 2006.

3.3.2 The EPM Industry

EPM is a significant offshoot of HCM. Like the HCM industry, there are different ways to define EPM. Bersin & Associates gives the following definition of performance management:

Management processes, which set measurable goals and objectives for employees, assess achievement and attainment of such objectives, and then use this information to improve performance through coaching, compensation, training and other means (Bersin, 2006, p.25).
From the EPM vendor's point of view, Gartner details the composition of a typical EPM suite (refer to Section 3.2 of this paper). The composition of these offerings varies significantly from vendor to vendor.

A Brief History

In general, EPM (software development and services) is not a new industry because packaged EPM applications have been in the market for over 15 years. However, early software versions were awkward and not easily implemented in more than a workgroup setting because the technology was difficult to deploy on a large scale (Holincheck, 2005). The emergence and pervasiveness of Web technology has enabled wider deployments of EPM within companies so that the market for Web-based solutions is relatively new. For example, in 1998, performance management software from Softscape Inc. of Wayland, Mass. was the only Web-based product available that could meet the needs of a globally distributed company (Robb, 2004, p.89). Now there are dozens of small and large companies selling Web-based EPM solutions. On page 42 below, we provide a list of the top 12 competitors in the market today.

Life Cycle and Adoption of EPM

From an industry life cycle perspective, the EPM industry is moving from its "embryonic" stage into a "growth" stage although it is important to note here the possibility of a quick progression to the "maturity" stage due to the fast-paced nature of hi-tech industries. (Refer to Appendix C for more on the four life cycle stages). Still, the following information provides objective evidence to indicate why the industry is moving to growth stage at this time.

EPM is "one of the fastest-growing segments of the human capital management (HCM) software market" (Holincheck, 2005). Bersin & Associates' (B&A) research results echo this argument (Bersin, 2006). According to B&A research conducted during the winter and spring of
2005, the current demand for employee performance management is just the beginning (Bersin, 2006). For example, the U.S. market for performance management software is $136 million and growing at 45 percent a year (Bersin, 2006). By examining trends and application practices in 552 organizations in North America, the president of Bersin & Associates, Josh Bersin, found that the focus of HR Managers today is improving the process of employee performance management. (See Figure 3.4 below.) In addition, Figure 3.5 indicates that 41% of respondents implemented EPM systems in 2004 versus only 12% five years ago.

Figure 3.4: Interest in Performance Management (Top 8 Topics of Interest from HR Professionals, HR.com Survey, fall, 2004, North America)

Data Source: Bersin & Associates (Bersin, 2006)
Josh Bersin’s research also addresses the fact that one of the reasons EPM is expanding so quickly is that many companies are dissatisfied with their current EPM applications (Bersin, 2006). Figure 3.6 clearly shows that a poor EPM system is one of the top three weak areas of HR. The other two areas of weakness are (1) Skills & Competency Management and (2) Succession Planning. Considering the range of functionality encompassed by the EPM sector (refer to Section 3.2), one could easily see that two of the above areas (competency management and succession planning) are actually two components of the EPM industry. Therefore, the top three problematic areas represent one broad area: employee performance management that most needs improvement.
In addition, the Bersin & Associates study also demonstrates current adoption situations of EPM. Figure 3.7 illustrates how widely performance management processes have been employed. Currently, although 60% of respondents have enterprise-wide EPM systems, only 32% of these feel that they have a consistent, standard enterprise-wide approach, and 20% of respondents have no standards for performance management (PM) processes at all (Bersin, 2006).
Interestingly, Figure 3.8 indicates that only 11% of the respondents who have adopted PM processes have pursued a vendor-provided solution. The reason for the very low adoption rate is that vendors were unable to offer applicable solutions. Recently, however, with the enabling technology and a better understanding of client demand for EPM systems, vendors are providing an improved level of flexibility, functionality, and appropriate consulting services to automate PM processes. Only recently, companies that already use PM systems and processes have started to build, improve, and standardize their EPM processes (Figure 3.7). Moreover, the establishment of PM processes is the prerequisite for any organization to pursue an EPM software solution. Bersin also comments in his analysis report that although only 11% of the respondents have employed the EPM solutions today, a very quick growth rate will become a major trend for the EPM industry in the next several years (Bersin, 2006).
Industry (Market) Structure

In its latest analysis, Gartner depicts the market characteristics of EPM software as follows:

The EPM software market continues to grow in 2005. Many vendors have doubled their number of customers since our initial MarketScope in June 2004. EPM software vendors continue to add more functional depth to the solutions. The market is still dynamic, with new entrants and significant merger-and-acquisition activity. EPM is an important linchpin in talent management applications (Holincheck, 2005, p.1).

A subsequent study by Bersin & Associates is consistent with Gartner’s solution. Josh Bersin (Bersin, June 2006) also notes that the performance market is very fragmented, and currently no single vendor has captured a significant share of revenue or customers. He also points out that of the 21 main vendors in his study; the fastest-growing segment is the vendors offering pure-play performance management systems. He then summarizes the feature of the current EPM market in bullet form: “(1) Highly fragmented, no clear leader (2) Top vendor has
18% market share by revenue, 11% by number of users (3) Some vendors growing at 100% per year (4) Total market growing at 40%+ per year (5) The “HCM / Talent Management Suite” market is still evolving” (Bersin, 2006).

Figure 3.9 provides statistical indicators to show how fragmented the EPM industry is in terms of annual licence and support revenue.

Figure 3.9: Performance Management Vendor Market Share by PM Revenue (Annual licence and Support).

Data Source: Presentation of Overview of Performance Management Bersin, Josh, June 2006

Furthermore, IDC’s analysis (Pang, 2005) also proves that the EPM industry is a diffuse market (refer to Table 3-2). The top five vendors only account for 33.5% of the total EPM market share. Therefore, the EPM industry is in a perfect competition market. IDC comments that there is still plenty of room for EPM vendors to grow in a budding segment by turning their products into must-have tools for performance-driven HR professionals and business managers.
Table 3-2: Worldwide ranking of the Top 5 Vendors in the Performance Management (PM) Industry

<table>
<thead>
<tr>
<th>Vendor</th>
<th>License and Maintenance Revenue($)M</th>
<th>Share (%)</th>
<th>HCM Offerings</th>
<th># of HCM Customers in Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenexa</td>
<td>23.2</td>
<td>10.3</td>
<td>CareerTracker Version 3.5</td>
<td>1,856</td>
</tr>
<tr>
<td>Workscape</td>
<td>16.6</td>
<td>7.3</td>
<td>Onforce Performance</td>
<td>180</td>
</tr>
<tr>
<td>Softscape</td>
<td>13</td>
<td>5.8</td>
<td>Achievement Plus HCM Suite</td>
<td>100</td>
</tr>
<tr>
<td>MindSolve</td>
<td>13</td>
<td>5.8</td>
<td>MindSolve Visual Performance</td>
<td>100</td>
</tr>
<tr>
<td>Oracle</td>
<td>10</td>
<td>4.4</td>
<td>ePerformance</td>
<td>270</td>
</tr>
<tr>
<td>Subtotal</td>
<td>75.8</td>
<td>33.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>150.2</td>
<td>66.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>226</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data Source: IDC Pang, 2005

Profitability

Since EPM is just emerging and growing very quickly, there is not much information available regarding the industry’s profitability. However, if one looks at the recent earnings of Kenexa, a leading global provider of talent acquisition and EPM solutions, one may be able to determine the profitability trajectory of the EPM industry. The data in Figure 3.10 is derived from Kenexa’s 2005 financial report. From 2004 to 2005, net income increased by $US10.184 million. Looking back to Table 3-2, one can see that Kenexa has more than ten times the client base than the other four competitors. Therefore, Kenexa could take advantage of economies of scale. The industry itself seems to have low profitability due to its highly competitive market structure. However, as Pleatsikas & Teece point out, in many high technology industries, “there is great emphasis on performance-based, rather than price-based competition” (2001, p.35).
Industry Concentration

A quantitative measure of concentration of the EPM industry is not available due to its highly dynamic characteristics. This paper showed earlier that there are many new entrants to the industry and it is undergoing massive merger-and-acquisition activities. For example, Hank Jonas, manager of organization effectiveness for Corning Inc. of Corning, N.Y., says that of the vendors he evaluated in 1998, his choice, Softscape Inc. of Wayland, Mass., is the only one that still exists as the same firm. The others either went bankrupt or have merged with other companies (Robb, 2004). In addition, consolidations in the HCM applications market will blur the lines that separate different segments and thus allow vendors to cross over from one to another e.g. from Incentive Compensation to Performance Management (Pang, 2005). According to Gartner, there is a 90% chance that by the end of 2006, at least two additional e-recruitment software vendors will offer EPM solutions, and two additional EPM vendors will offer e-recruitment solutions (Holincheck, 2005). Given the situation that the vendors involved keep
changing, it is reasonable to conclude that the EPM industry currently has a high turnover rate and low concentration, but will likely become more concentrated in the future.

Important Future Trends

The Product

Bersin & Associates (Bersin, Jun2006) believes that in long run, clients will prefer end-to-end talent management solutions that integrate new processes, such as cascading goals and succession planning. Although they have found that the fastest-growing segment is for vendors offering pure-play performance management systems, the study expresses doubts as to “whether stand-alone Performance Management vendors can survive without integration with LMS vendors” (Bersin, 2006, P.29). Gartner researcher James Holincheck notes, “EPM and its integration with other talent management applications are key to gaining business value” (2005, p.3).

The Market

IDC, a global market intelligence and advisory firm, says spending on software and services for performance management in 2005 amounted to $973 million, and forecasts that spending will reach $1.8 billion by 2009, while growing at a compound annual rate of 16 percent (Ruiz, 2006).

IDC Analyst Pang offers an outlook for EPM segment dynamics:

✓ Not only do HCM vendors cross over from one segment to another (i.e. from compensation to performance management), but also new segments are expected to emerge due to the evolvement of the global workforce along with job mobility and transfers, multiple assignments, dynamic profiling, and lifestyle balancing requirements. The demand for pre-hire testing, succession planning, and
organization charting applications would boost some specialized vendors, such as Brainbench, Successionwizard and Human Concepts.

✓ Small and midsized business segments will become the engine for growth in the HCM market from e-Recruiting to Performance Management. This would especially be the case in such industries as healthcare, professional services, and the public sector where the labour costs are rising, and numbers of skilled workers are increasing.

✓ Innovation will continue to play a part in changing the business model of many HCM incumbents and upstarts, including the EPM vendors (Pang, 2005, P.19).

Gartner has identified two out of three main trends in the U.S. mid-market for HRMS:

✓ Talent Management Application Functionality: Mid-market HRMS vendors are adding Talent Management to their HRMS products. Within five years, Talent Management will be a required functionality for all mid-market organizations.

✓ On-Demand/Software-as-a-Service Solutions: On-demand solutions can lower TCO (total cost of ownership) vs. the traditional license model with on-premise implementation and in-house support. There is an 80% probability that by 2008, vendors who use the on-demand/software-as-a-service model will attract more than 50% of new HRMS purchases by U.S. mid-market customers (Holinchek & Recknagel, 2006, P.1-2).

In conjunction with Talent Management Manager in IDC, Workforce Management conducted a survey of 218 HR leaders at companies of 2,500 or more employees in April 2006. We list some opportunities below:
✓ Only 5 percent of the respondents are “very satisfied” overall, with how performance management is handled in their organization; 41.5 percent are “somewhat satisfied”. Of the respondents who already have automated systems in place, 38 percent say they are either “somewhat” or “very dissatisfied” with the status quo.

✓ Nearly 65 percent of the organizations say their performance management systems employ only “a little” automation.

✓ Twenty-one percent of the formally automated HR systems are using their enterprise resource planning system or HR information system to manage performance. The remainder are using either a separate "best-of-breed" system or a best-of-breed system that’s part of a larger talent management suite.

✓ Of those not automated today, nearly 45 percent plan to make a change in the next 12 to 18 months.

✓ 26.5 percent of the automated HR systems say they plan to change their system in the next year or so (Ruiz, 2006, P.47-49).

The HR-XML “Performance Management Specification” is Underway

Since EPM solutions have rapidly become a prominent and critical integration hub within the landscape of HCM solutions (Alen, 2006), HR-XML Consortium, (a leading authority on HR system interoperability and the exclusive source for industry-approved HR data interchange standards), launched the Employee Performance Management Initiative on May 24, 2006 (News release, 2006). This independent, non-profit consortium works with its members (including Halogen Software, Hewitt Associates, Kenexa, Lawson Software, and Talent Technology Corporation) to set up new EPM standards. The goal of these standards is to streamline integration between EPM systems and a wide variety of other HR systems, including, core HR
systems, learning management, compensation management, assessment, recruitment, hiring, retention, succession planning, and other applications. Therefore, from a product interest point of view, expectations in the marketplace for seamless and real-time HR services delivery will grow and could well become one of the biggest differentiating factors for all EPM vendors in the very near future.

**Outsourcing**

Although Gartner’s report (Holincheck & Recknagel, 2006) mentions that outsourcing also plays a part in shaping the future of Human Resource Management industries, according to Dattner and Rothenberg (2003), companies often outsource payroll and benefits administration that mostly are transactional functions (high volume and repetitive). Figure 3.11 provides evidence that supports the assertion.

**Figure 3.11: Top Five Outsourced HR Activities (Percent of All Employers)**

![Bar Chart](image)


(NB: EAP=Employee Assistance Program)
The Challenges

Research from Bersin & Associates has generated a prioritized issue list showing the top factors influencing the adoption of EPM software as shown in Figure 3.12. The top three factors are: (1) ease of use, (2) flexibility, and (3) integration with learning management (Bersin, 2006).

EPM systems have a broad customer base, from executives to managers and line workers. If the system requires extensive learning and significant behaviour changes of customers, the users will fail to adopt the application. Bersin & Associates' research reveals that 41% of respondents rated "encouraging employees to use the EPM system" as the biggest obstacle to adoption (Bersin, June 2006).

Figure 3.12: Top Issues with EPM Systems Today (B&A survey conducted during the winter of 2005, North America).

Different organizations define their EPM systems differently, and CEOs, line managers, and HR administrators all have different needs for an EPM system. A good EPM system should be able to accommodate all (cross-industry) options and provide a wide range of reporting...
solutions for different levels of users. Sometimes, ease of use and flexibility conflict, and it can be difficult to find a suitable trade-off.

Two survey results were both disappointing and surprising. *Workforce Management* and IDC conducted a survey of 218 HR leaders at companies with 2,500 or more employees in April 2006. The following results show the challenges *ex ante*:

✓ Of all the companies that wish to automate their EPM systems, nearly 57 percent plan to use their ERP or HR information system to do so. Only 6.5 percent plan to go for a best-of-breed system.

- Contradictory to the results, however, some "best-of-breed" EPM vendors (such as SuccessFactors) are experiencing double and triple-digit year-over-year growth. One has to wonder where that is coming from, if companies are using their ERPs. Currently, no answer is available to this question.

✓ Twenty-six percent say they do not know how they will accomplish their performance management automation projects. It seems that the EPM industry is in its infancy stage. That might explain why 57% will choose ERP or HR information systems to automate their system. They simply do not know much about the best-of-breed vendors (Ruiz, 2006, p. 48).

### 3.4 Competitive Analysis for the EPM Industry

The formulating of successful competitive strategies greatly depends on a company's external environment, specifically, the industry in which the firm is competing. Porter's five-force model (Porter, 1980) offers a useful way of analyzing competitive forces within an industry. Based on his theory, there are five competitive forces: the intensity of rivalry among existing competitors, the threat of entry by new competitors, the threat of substitute products or services,
the bargaining power of suppliers, and the bargaining power of buyers (customers). These five forces determine the profitability and the attractiveness of the industry. With this in mind, Figure 3.13 summarizes the factors strengthening or weakening each competitive force. The following sub-sections show a detailed analysis of the industry competitive forces.

Figure 3.13: Competitive Forces of the EPM Industry.

Competitive Forces Analysis for the EPM Industry

3.4.1 Rivalry among Existing Competitors – Intensive Rivalry (High)

Rivalry among existing competitors is intense in the EPM industry. Competition among current competitors depends on the number of competitors, product life cycle, size, nature, differentiation, and so forth. Section 3.3.2 of this analysis presents a brief description of the EPM industry regarding profitability, market structure, growth, and life cycle.
There is increasing competition in the software market due to rapidly shortened life cycles and declining prices as well as demanding customers. The following factors result in intense rivalry within the EPM industry. Although the analysis shows that four factors (low exit barriers, growing market, differentiated products and high switching cost, and acquisition) lessen the competition, they are very weak compared with the two enhancing factors (numerous competitors, and diversified competitors). Therefore, the result is high levels of rivalry in the EPM industry.

(+) Numerous Competitors

As discussed in Section 3.3.2, the EPM industry is highly fragmented with many equally-balanced competitors. (Refer to Table 2-5 partial competitor list). We present a detailed competitor analysis on page 42.

(-) Low Exit Barriers

From the customer's point of view, it is troublesome and expensive if their EPM vendors exit the industry. However, to the vendors themselves, in terms of specialized assets, resettlement costs, and strategic interrelationships, there are no high barriers for exit.

(-) Customized Products Lead to a Relatively High Switching Cost

Vendors always customize and integrate their EPM products with their respective clients' business enterprise software. Therefore, EPM products take a long time to implement which makes it costly for customers to switch.

(-) Market Size is Growing Quickly

Rapid industry growth offers more space for all existing competitors to expand and enlarge their market share. The competitors could improve their performance by just keeping up with the industry.
**(-) Acquisition and Merger**

Since the EPM industry is undergoing mergers and acquisitions, rivalry is shifting. Acquisition could bring a new personality to the industry, and generally lessen the rivalry among existing competitors.

**(+ Diverse Competitors**

Gartner (Holincheck, 2005) classifies the EPM vendors into six categories (Refer to Table 3-3). These competitors vary in strategies, origins, personalities, and relationships to their strategic partners. (Refer to our competitor analysis on 42).

### Table 3-3: Six Categories of EPM Vendors

<table>
<thead>
<tr>
<th>Vendor Category</th>
<th>Representatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP/HRMS</td>
<td>Oracle, Oracle PeopleSoft, SAP</td>
</tr>
<tr>
<td>Learning Management</td>
<td>CyberU, Saba, SunTotal</td>
</tr>
<tr>
<td>Talent Management</td>
<td>Authoria, CareerHarmony, HRSmart, CeZanne, SuccessFactors, Kenexa</td>
</tr>
<tr>
<td>Performance management</td>
<td>CCH Knowledge Point, Halogen, Performix</td>
</tr>
<tr>
<td>Niche Consulting agencies</td>
<td>Development Directions, Mercer Human Resources Consulting, SHL Group</td>
</tr>
<tr>
<td>Business outsourcers</td>
<td>Fidelity Employer Service Centre</td>
</tr>
</tbody>
</table>

### 3.4.2 The 12 Key Competitors (Focus on Canadian Market)

Table 2-5 in Section 2.4 shows PWS' main direct competitors. However, this table does not indicate which competitors present the strongest threat to Group X in the Canadian market. Some additional criteria have been used to rank the top 12 competitors of Group X from Table 2-5. These criteria are competitors' Canadian presence, functional similarity of their solutions to PWS, competitors' current goals and performance, their competitive strategies, their assumptions.
regarding the industry and themselves, their key strengths and weaknesses (resources and capabilities), and predictions of their future strategic movement (Vining, 2006).

Based on these criteria, this analysis identifies the top 12 direct competitors of Group X. They are Halogen Software, Kenexa, MindSolve, Oracle/PeopleSoft, Plateau, SAP, SilkRoad Technology (Human Asset Technologies), Softscape, SuccessFactor, Technomedia, viDesktop, and Workstream. In the following section, we analyze each vendor’s competitive dimensions and position by assessing its value curves¹. (Appendix D lists every individual vendor’s value curve.) Section 3.5 will explain these value curves further.

¹ The Value curve – a graphic depiction of the way a company or an industry configures its offerings to customers, a powerful tool for creating new market space. F Kim, W. Chan and Mauborgne, Renée. “Creating New Market Space.” Harvard Business Review. Jan/Feb99, Vol. 77 Issue 1, p83-93, 11p
Halogen Software

Table 3-4: The Facts – Halogen Software

<table>
<thead>
<tr>
<th>Locations</th>
<th>Headquarters – Ottawa, branch – Toronto</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Over 500 customers in financial, healthcare, education, high-tech, and services/ Manufacturing industries</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>e-appraisal, e-appraisal Healthcare, e-compensation, e-360, e-succession, e-surveyor, Multi-Rater Module along with services: HR consulting, Training, Implementation service, Hosting (outsourcing to Company ABC), Customization, SaaS (Software-as-a-Service), discussion Forum</td>
</tr>
<tr>
<td>History</td>
<td>A private (subsidiary of a successful consulting company) firm founded in 2001</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Strong positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>As a leading provider of employee performance management (EPM) solutions, Halogen primarily focuses on the small and midsize business (SMB) market (less than 5,000 employees). It provides powerful, easy-to-use, and affordable Web-based software that dramatically improves HR and line-manager productivity. The solutions can be implemented in days as little as 10 days. In October 2005, it won the Top Human Resources Product Award from Human Resource Executive Magazine (because Halogen e-compensation was one of 10 products recognized for ease-of-use, innovation and value). In July the company received the 2005 Human Resources Technology Award HR Events and The International Quality &amp; Productivity Centre (IQPC)</td>
</tr>
<tr>
<td>Tag Line</td>
<td>Affordable-simple-powerful</td>
</tr>
</tbody>
</table>

Please find the associated Value Curves in Appendix D

---

Halogen Software’s Website
Kenexa

Table 3-5: The Facts – Kenexa

<table>
<thead>
<tr>
<th>Locations</th>
<th>North America: headquarters in Pennsylvania (6 branches in the USA, 1 in Toronto Canada), Europe: United Kingdom, Asia: India and Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>As of December 31, 2005, it had a client base of approximately 1,950 for talent acquisition and employee performance management solutions. It operates on a subscription basis in a number of industries, such as financial services and banking, manufacturing, life sciences, biotechnology and pharmaceuticals, retail, healthcare, hospitality, call centers, and education, (approximately 119 companies on the Fortune 500 list published in April 2005). Kenexa has a relatively large client base in e-recruitment and surveying, but it is relatively new to performance management.</td>
</tr>
<tr>
<td>The EPM Suite</td>
<td>The suite includes solutions for HR analytics, employee engagement surveys, 360 degree multi-rater feedback, and performance management.</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>Kenexa’s objective is to be the leading global provider of talent acquisition and employee performance management solutions. Kenexa CareerTracker® received the 2004 Performance Management and Analytics award by Techr; Kenexa’s Employment Process Outsourcing practice was named the #1 RPO provider by HRO Magazine in 2005, and Kenexa Workforce Intelligence™ was named a finalist for the 2006 Codie Awards. Kenexa differentiates itself by its emphasis on mentoring and coaching, as well as managing the performance review process. It has good developmental planning but does not offer its own LMS (it has a partnership with WBT Manager). In addition, Kenexa has released a specific solution targeted at retail hourly worker performance management.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>None</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

---

3 Kenexa’s Website
## Table 3-6: The Facts – MindSolve Technologies

<table>
<thead>
<tr>
<th>Locations</th>
<th>USA based with clients in over 50 countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>diverse clientele across 16 industries</td>
</tr>
<tr>
<td>The EPM Suite</td>
<td>the suite includes supervisor-based performance appraisal, multi-source assessment (using the renowned easy-to-use Visual 360® technology), and development planning and goal tracking</td>
</tr>
<tr>
<td>History</td>
<td>Since 1994, it has provided industry-leading software and consultation solutions to organizations of all sizes and varieties (private)</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>MindSolve’s objective is to provide clients with the easiest and most valuable performance management solutions, and the most responsive and knowledgeable support. Its unique inclusive pricing covers sophisticated workflow and other configuration options, implementation, custom reporting and analysis, and the only fully vendor-administered level of service in the industry – all for a fixed, guaranteed price. Full-service outsourced, hosted implementation, in-house installation, or hybrid models are available. The most unique functionality is its Visual Profiler (patented) product, which enables a manager, for a given competency, to drag and drop where an individual or group of employees rate for that competency.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>Better solutions, better service, better strategy execution</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

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4 The company’s Website
Table 3-7: The Facts --Oracle/Oracle PeopleSoft 

<table>
<thead>
<tr>
<th>Locations</th>
<th>headquartered in the USA with offices around the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Oracle: no data for EPM solutions</td>
</tr>
<tr>
<td></td>
<td>Oracle PeopleSoft: Performance customers: over 400</td>
</tr>
<tr>
<td>The EPM Suite</td>
<td>Oracle: Self-Service Human Resources solution including e-Learning</td>
</tr>
<tr>
<td>History</td>
<td>almost 30 years, (public)</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>positive (2005) for both</td>
</tr>
<tr>
<td>Key Information</td>
<td>The world’s largest enterprise software company. The EPM segment is not Oracle’s original focus. Even in its annual report, the EPM suite is not mentioned separately. However, after acquisition of PeopleSoft, Oracle/PeopleSoft’s EPM suite has been enhanced. Oracle: The solution supports individual goals and objectives, but it does not include support for cascading goals or matrix goals. It has strong competency framework and good integration from performance management to e-Learning. (most appropriate for Oracle HRMS customers) Oracle PeopleSoft: it is very strong on competency management &amp; writing-assistance. It is integrated with ePerformance and provides strong support for career development and mentoring.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>Oracle -Simplify (Speed information delivery with integrated systems and a single database), standardize (Reduce cost and maintenance cycles with open, easily available components), and automate (Improve operational efficiency with technology and best practices). Oracle PeopleSoft: Embedded intelligence, Flexibility, Integration (for e-Performance solutions).</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D 

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5 The company’s Website
6 The value curves are developed based on combinations of features and functionalities of Oracle and Oracle PeopleSoft
Plateau

Table 3-8: The Facts – Plateau

<table>
<thead>
<tr>
<th>Locations</th>
<th>headquartered in the USA with branches in UK and Asia Pacific (Singapore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>A relatively large customer base across industries, in particular, Plateau has BC Hydro, Royal Bank of Canada in their customer file, and NASA and GE bought its learning management and 360 feedback processes.</td>
</tr>
<tr>
<td>The EPM Suite</td>
<td>Performance Management, Career &amp; Succession Planning, and Learning Management.</td>
</tr>
<tr>
<td>History</td>
<td>Plateau was founded ten years ago and has been profitable the last 3 years (private)</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Not cited by Gartner as a EPM vendor, but Gartner put it in Leader Quadrant of LMS Magic Quadrant</td>
</tr>
<tr>
<td>Key Information</td>
<td>Plateau is a leading provider of web-based software for developing, managing and optimizing organizational talent to increase workforce productivity and maximize operating performance. It provides deep functionality for learning management, performance management, and career and succession planning built on a proven, adaptable J2EE architecture. Plateau also provides comprehensive analytics for pre-packaged reporting and business performance impact analysis. Its strengths include Overall Customer Satisfaction, Vendor Loyalty, Solution Value, Total Customer Service, Ease of Ownership, and Ease of Use. It also has many strategic partners such as Oracle, IBM.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>not available</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

---

7 The company’s Website
Table 3-9: The Facts – SAP

<table>
<thead>
<tr>
<th>Locations</th>
<th>Headquartered in Walldorf, Germany, with subsidiaries in over fifty countries.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>SAP delivers business solutions to more than 34,600 customers in more than 120 countries around the world.</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>Compensation, Learning/development management, Coaching/Enabling, Succession management, Competency management, Appraisal, 360 assessment</td>
</tr>
<tr>
<td>History</td>
<td>Founded in 1972, SAP is the world’s third-largest independent software provider. Its solution is relatively new. It was ramp-up 4Q03.</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Positive (2005)</td>
</tr>
</tbody>
</table>

Key Information

SAP’s performance management solution is appropriate only for SAP customers because it depends on other modules in the SAP suite. The gap analysis reporting (organizational and individual) is very strong. In addition, gaps are directly linked to developmental activities. Appraisal setup is flexible and can include objectives, competencies, developmental activities and annotations (to keep track of ongoing feedback). There is a strong linkage between performance reviews, developmental activities and training.

Tag Line

Knowledge, Experience, and Technology for Optimizing Business

Please find the corresponding Value Curves in Appendix D

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8 The company’s Website
Table 3-10: The Facts – SilkRoad Technology (Human Asset Technologies) 9

<table>
<thead>
<tr>
<th>Locations</th>
<th>Based in Winston-Salem, NC with offices around the globe (one office in Toronto)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Over 2,000 global customers</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>Multi-rater assessments, competency and skill management, development planning,</td>
</tr>
<tr>
<td></td>
<td>goal-setting and performance planning, performance and appraisal reviews, and</td>
</tr>
<tr>
<td></td>
<td>career development with succession.(Besides the EPM suite, it also offers</td>
</tr>
<tr>
<td></td>
<td>recruiting management, on-boarding, performance management, compensation</td>
</tr>
<tr>
<td></td>
<td>management and self-service intranets and portals). The EPM suite is the result</td>
</tr>
<tr>
<td></td>
<td>of acquisition of Human Asset Technologies</td>
</tr>
<tr>
<td>History</td>
<td>A privately held company</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>SilkRoad Technology was not cited, but Human Asset Technologies’ rating is</td>
</tr>
<tr>
<td></td>
<td>Positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>It specializes in talent management solutions that offer a unique blend of</td>
</tr>
<tr>
<td></td>
<td>systems and services that enable companies to gain competitive advantage</td>
</tr>
<tr>
<td></td>
<td>through optimum alignment of employee performance with organizational goals.</td>
</tr>
<tr>
<td></td>
<td>It seems that the strength of SilkRoad Technology itself is recruiting</td>
</tr>
<tr>
<td>Tag Line</td>
<td>not available</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

---

9 The company’s Website
### Table 3-11: The Facts – Softscape

<table>
<thead>
<tr>
<th>Locations</th>
<th>The USA based with offices around the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Softscape’s customers represent millions of workers across 46 countries. The number of performance management customers more than doubled in 2004</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>Performance management, workforce planning, hiring management, succession planning, learning management and compensation management.</td>
</tr>
<tr>
<td>History</td>
<td>A privately held company</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Strong positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>As the pioneer in people management, Softscape is on the cutting edge of advanced technologies to enable organizations of all sizes around the world achieve operational excellence. Just as they claim that they have industry's most comprehensive people management technology</td>
</tr>
<tr>
<td>Tag Line</td>
<td>Empowering People Management</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

---

10 The company’s Website
Table 3-12: The Facts – Technomedia

<table>
<thead>
<tr>
<th>Locations</th>
<th>Headquartered in Montreal, Quebec, with branches in Toronto, Paris, and Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Bell Canada and its subsidiaries, and the others. However, most clients bought its learning management system</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>360 feedback, performance management, competency management, career management, Talent management, recruitment, Admin. Modules, learning management (expanded functions in this modules including knowledge management)</td>
</tr>
<tr>
<td>History</td>
<td>A privately held company founded in 1996, Bell Canada is a major shareholder. In 2000, the company first developed e-learning and e-HR systems</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>not cited</td>
</tr>
<tr>
<td>Key Information</td>
<td>(ISO9000-2000 certified) They claim that they are the Canadian industry-leader in the design and implementation of web-based solutions for human capital management and development. They also assert that their e-HR/Learning platform is a modular, configurable, secure, robust and user-friendly technology that empowers organizations to rapidly integrate learning, content, competencies, performance, succession, recruitment and career management all in a single web-based application. Their Learning management system has received a couple of rewards</td>
</tr>
<tr>
<td>Tag Line</td>
<td>the key to talent</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

---

11 The company’s Website
SuccessFactor

Table 3-13: The Facts – SuccessFactor \(^{12}\)

<table>
<thead>
<tr>
<th>Locations</th>
<th>Headquartered in the USA, with several branches in Europe and Asia Pacific areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>As of September 2006, real usage by 2 million employees in 139 countries and 18 languages</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>Goal management, career &amp; development planning, competency management, learning management, 360 feedback, compensation, employee survey, Succession planning, recruiting, analytics and reporting</td>
</tr>
<tr>
<td>History</td>
<td>A privately held company founded in 2001</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Strong positive</td>
</tr>
<tr>
<td>Key Information</td>
<td>It has been growing quickly (more than 100 percent year-to-year). It offers streamlined solutions targeted small and medium-sized businesses called Manager’s Edition (for up to 25 employees) and Professional Edition (for 25-500 employees). Only Enterprise Edition is appropriate for mid-sized to large businesses (500-500,000) employees. The breadth of the solution increases from Manager’s Edition to Enterprise Edition.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>not available</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

viDesktop

Table 3-14: The Facts – ViDesktop \(^{13}\)

<table>
<thead>
<tr>
<th>Locations</th>
<th>Headquartered in Toronto</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>With more then 150 legal service firms out of total 190 customers</td>
</tr>
<tr>
<td>The EPM suite</td>
<td>Employee evaluations, Personal development plans, 360(^{\circ}), upward and peer reviews, Work allocation and project-based feedback, Any internal or external surveys</td>
</tr>
<tr>
<td>History</td>
<td>A privately held company founded in 2001</td>
</tr>
<tr>
<td>Rated by Gartner</td>
<td>Positive (2005)</td>
</tr>
<tr>
<td>Key Information</td>
<td>Through innovative technology, top-rated customer care, and strategic partnerships, viDesktop’s solutions enable organizations of all types and sizes to achieve the highest quality process management. The solution is template-driven so that it is easy to set up and reuse prior evaluations and assessments. It is ideal for the legal service industry.</td>
</tr>
<tr>
<td>Tag Line</td>
<td>not available</td>
</tr>
</tbody>
</table>

Please find the corresponding Value Curves in Appendix D

\(^{12}\) The company’s Website

\(^{13}\) The company’s Website
Workstream

Table 3-15: The Facts – Workstream

| Locations | Headquartered in Ottawa, Canada |
| Customers | It has over 400 fortune-class customers. Representative clients include Chevron, Eli Lilly Canada, The Gap, CSC, Kaiser Permanente, Motorola, Nordstrom, Samsung, Sony Music Canada, VISA, and Wells Fargo |
| The EPM suite | Recruitment, benefits, compensation, rewards, transition, and performance |
| History | Publicly held company founded in 1996 |
| Rated by Gartner | promising (2005) |

Key Information

As a new entrant, Workstream provides enterprise workforce management solutions and services that help companies manage the entire employee lifecycle - from recruitment to retirement. The solutions are offered on a monthly subscription basis, under the Software as a Service (SaaS) model. Workstream builds its performance suite via acquisitions. Therefore, the solution has somehow good functionality, but low integration

Tag Line

Real people, real business issues, one solution, Workstream, HR made simple

Please find the corresponding Value Curves in Appendix D

3.4.3 Bargaining Power of Suppliers – Low to Moderate

The bargaining power of supplier is low to moderate. The EPM industry intrinsically falls in the software and consulting service industry. This industry has low reliance on outside suppliers instead depending on premium, skilled technicians or developers. Highly competent technical labour is in short supply, and organizations in the industry could spend a fortune to attract and retain this kind of talent. In particular, when unemployment rates are low, the high-tech labour force could exert significant bargaining power. The power of software tool suppliers is weakening, and their bargaining power is almost insignificant when compared to that of labour.

14 The company’s Website
Labour: Booming Economy and Low Unemployment Rate

According to Statistics Canada (2006), by the end of August 2006, the unemployment rate edged up 0.1 percentage points to 6.5%, but is still at or near the lowest rate in 30 years (refers to Figure 3.14). Specifically for the information sector, the employment rate increased by 4.5% from August 2005 to August 2006. Furthermore, the EPM industry has been expanding since 2004. As a result, the EPM software developers, who possess not only strong IT skills but also sound business / HR understanding, have become scarcer. Since the technology itself involved in the EPM industry is not very complicated and the IT sector has been in a lull for a while, the bargaining power of highly skilled IT technicians is just moving from low to moderate.

Figure 3.14: Unemployment Rate in Canada (August 2006)

Source: Statistics Canada, 2006 (Used with permission.)
(-) Software Tool Vendors

Bargaining power of software tool suppliers is decreasing for two reasons: (1) the lack of differentiation results in a low switching cost for customers in the industry (i.e. buyers are able to find alternative suppliers). (2), the software tools have little impact on the EPM solution.

3.4.4 The Bargaining Power of Buyers – High

The bargaining of buyers is high in the EPM industry. Factors such as performance-based competition, differentiated products, previous reference ERP price, medium to large buyers, and lack of buyer concentration do lessen the competitive force of buyers. However, small buyers, powerful industry analysts, and information asymmetry exert very strong forces overall. Detailed explanations follow.

(-) Mass Customized Products

Although most solutions in the EPM industry are generic and applicable to almost all industries, customization for each customer is essential. Differentiated products of the industry result in a high switching cost for the buyer group and therefore decrease the buyer’s bargaining power. The buyer group may be able to find alternative suppliers, but implementation time may not be affordable.

(-) Switching Costs

After choosing an EPM solution and embedding it into the company’s internal IT system, the company would face very high switching costs. Currently, there is no standard for EPM solutions, and each EPM vendor offers very different versions of such solutions. Changing vendors means significant administrative effort, data migration and adjustment on the part of employees. There may be unexpected problems so that the transition process is less than efficient. When this happens, buyers are unlikely to switch the EPM vendor.
(-) **The Quality/Performance of the Solutions/Services is More Important than Price**

Although the EPM industry is relatively new, many analytical agencies including Gartner, IDC, and Bersin & Associates have done significant research regarding what factors customers are most concerned about when it comes to purchasing an EPM system. None of the survey results indicate price as the greatest concern, but all indicate that performance and available services are what is uppermost in the buyer’s mind. IDC analysis report and Gartner’s research report all reveal that functionality and integration are critical to EPM vendors. Therefore, a strong focus on quality of solutions means that buyers are less price-sensitive.

(-) **The Traditional Reference Price of ERP and/or HRIS**

Historically, the HRMS in ERP or “plain vanilla” HR systems often took years and millions of dollars to implement. Compared with previous HR software, the price of current EPM solutions has dropped dramatically due to Web-based technology. Because of the very expensive reference price in the past, buyers see current EPM products as relatively inexpensive and therefore tend to be less interested in bargaining the price again.

(-) **Medium to Large Companies**

In general, most buyers of EPM solutions are medium to large enterprises. They desire to leverage their HR assets and build their competitive advantage on HR. The purchase does not constitute a significant fraction of the buyer's costs. In addition, these companies are often fast-growing organizations and usually much less sensitive to price.

(+) **Small Companies**

The purchase of EPM products requires relative large capital expenditures to small companies. Therefore, they have strong incentive to close the deal at a favourable price.
(-) Lack of Buyer Concentration

Since EPM solutions tend to help buyers to accomplish their competitive advantage, buyers of EPM solutions prefer to keep the purchase a secret. As a result, buyers do not work together to acquire their solutions, and this results in decreased buyer bargaining power.

(+) Industry Analysts

Because of the uncertainty and complexity of the products, while selecting EPM vendors, potential buyers often consult industry analysts, such as Gartner Group and IDC, and buy the research/information of the EPM vendors and solutions. These industry analysts can gain significant bargaining power as they exert considerable influence on the purchasing decisions of potential buyers.

(+) Information Asymmetry

The EPM industry is quite new, and customers perceive that the solution is complex and difficult to understand. For example, Workforce Management surveyed 218 leaders at companies with 2,500 or more employees. Twenty-six percent say they do not know how they can automate their performance management by using EPM solutions. Some of them even think that Microsoft is the world’s biggest HR vendor (Ruiz, 2006). Being unaware or ignorant of EPM solutions makes selling harder and increases the buyer’s bargaining power. In order to create market awareness and educate potential buyers, the EPM vendors have to invest more time and money.

3.4.5 Threat of Entry – High

The threat of entry to the EPM industry is high. The facts, such as the high growth, low entry barriers, and development of Web-based technology, will continue to attract new entrants (refer to Section 3.3.2). As mentioned in Section 3.3.2, mergers and acquisitions blur the line of different HCM segments. For example, all three segments in the HCM industry, (incentive management, workforce management and e recruiting) take a share of the EPM market. Some
HR consulting firms, HR business outsourcers, and certainly the ERP giants are all amongst new entrants in this industry. The new entrants create a significant threat to incumbents of the industry.

(+) Growing Market

As described above, the industry trend of ample room for growth attracts many new entrants who may be considering jumping in. Those new entrants could leverage the latest technologies to exert considerable threat to incumbents.

(+) Low Fixed (Capital) Costs

The capital requirement of establishing an EPM software company is relatively small. The main costs associated with establishing an EPM company would be the purchase of standard computers, development software, and the labour cost. The biggest investment probably involves human resources, that is to say, competent technical labour. After achieving the break-even point, the company can sell each of its products at almost zero cost (except labour costs). However, if the new entrants try to offer Web hosted, integrated EPM solutions, they have to invest more capital than those who only provide "Silo and Clunky" ones. At any rate, capital requirement is not a barrier to deter the new entrants.

(-) Brand Name of ERP Vendors

Global ERP software vendors such as SAP, PeopleSoft, and Oracle could take advantage of their well-established reputation and expertise in the software industry. As cited earlier in this paper, Workforce Management has done a survey of 218 firms with above 2,500 employees. One stunting result is that approximately 57 percent of those who say they are going to automate their system plan to use their ERP or HR information system to do so. Only 6.5 percent plan to go for a "best-of breed" system, which represents the solutions provided by new entrants.
Economies of Scope

Economies of scope enable those well-known ERP players like Oracle and SAP to share their intangible assets (i.e. brand name) and existing ERP operations or functions, such as research and development, marketing, service network, sales force utilization, and distribution. Scope economies may oblige new entrants to accept a cost disadvantage on marketing and distribution, but this is not a substantial barrier to entry.

Product Differentiation

EPM solutions are mass-customized products that differentiate themselves at relatively low cost. Therefore, incumbents could leverage their brand name and customer loyalties simply being earlier movers in the industry.

High Switching Costs

Buyers are normally reluctant to switch from one supplier’s solution to another’s, since implementation of the solution is complicated and time-consuming. However, if the new supplier would like to take responsibility and demonstrate its super products and services, buyers will be more motivated to switch. In addition, current offerings of EPM solutions are not able to integrate completely with other IT applications buyers may have already.

No Industry Standard for EPM Solutions

So far, there is no any industry standard for the functionality of EPM solutions. Different vendors define their product specifications differently. New entrants feel free to add, reduce, and revise the current version of the solutions based on their observation of the market’s current competitive landscape.
(-) Difficult Distribution

Incumbents all have their sales channels, networks, and strategic partners. New entrants need to offer better terms or high mark-up to attract channel members or strategic partners.

3.4.6 Threat of Substitute Products – Moderate

The threat level of substitute products is high to moderate. As identified earlier in this analysis, Paper-based systems, Microsoft Excel and Word, in-house development software, and outsourced workloads are substitutes for EPM solutions. The effect of the substitutes diminishes as organizations move to strategic HR, and explore and externalize the effectiveness of EPM solutions. However, a new substitute – on-demand / Software-as-a-Service model – is emerging. This new model is a significant future market trend and increases pressure toward current EPM incumbents.

(-) Paper-Based System, Microsoft Word or Excel

Paper-based systems cannot stand alone without Microsoft Word and Excel. Paper-based systems are therefore intrinsic Microsoft Word or Excel systems. Regarding this, Figure 3.8 reveals that only 11% (out of 553 firms, refer to Appendix E) of respondents have had vendor-provided EPM systems installed, but 58% employed paper-based systems. Rowan, program manager of HR and talent management services at IDC, comments that many company’s systems are built on Word or Excel templates, with some automated features, such as notifications of performance evaluation due dates, created by the organization’s IT department (Ruiz, 2006). However, Microsoft Word or Excel is weakening as a substitute since increasing numbers of organizations have seen the advantage of buying the “best-of-breed” solutions off-the-shelves.

(-) Outsourcing

Outsourcing is not a substitute for the EPM solution per se, as more and more organizations have realized that performance management can actually help them build core
competency that others cannot imitate. Research and survey indicate that organizations prefer to outsource their transactional HR functions such as payroll, benefit, and recruiting but not performance management. At this point, after outsourcing those transactional HR activities, the organization might pay more attention to EPM systems.

**(-) In-house Development Software**

In the past, this was the second strong substitute for the EPM solution (see Figure 3.8). However, after realizing that in-house-developed IT applications rarely add value to organization’s core competency, firms have started to buy business software off-the-shelf, particularly since the early 1990s. This also makes it possible to get “best-of-breed” software.

**(+) On-demand / Software-as-a-Service model**

Compared with the traditional license model with on-premise implementation and in-house support, hosted or on-demand solutions are gaining popularity due to their low total cost of ownership (TOC). In particular, mid-market customers favor the new substitute. In other words, the new model actually is able to enlarge the EPM market by attracting many new users in mid-markets. At this point, the substitute exerts pressure toward existing vendors but at the same time generate a buffer to the pressure.

**3.4.7 Competitive Force Analysis: Summary**

Figure 3.13 summarizes the impact of the Five-Forces for the EPM industry. The analysis shows that the EPM industry is highly competitive due to its being dominated by three competitive forces. These forces are: the rivalry amongst existing competitors, the threat of entry, and the bargaining power of buyers. These three competitive forces are significant. Two other competitive forces (bargaining power of suppliers, and the threat of substitutes), make for low to moderate, and high to moderate competition. The three key forces mentioned largely shape the
competition in the EPM industry. Government has not had any significant impact on the EPM industry so far.

The Five-Force analysis is able to paint a complete picture of the competitive dynamics of the EPM industry, and serves as an important predictor of the attractiveness of the industry. These attractiveness factors are summarized as blow:

- To Group X, high threat of entry is a good sign for it to enter the industry. A rapidly growing market (refer to Section 3.3.2), no industry standard for the solutions, and low to moderate fixed (entry) costs are all positive forces for Group X. In particular, Group X would have much lower fixed costs than all other new entrants. All infrastructures are ready since its parent corporation is a communications incumbent. The new EPM solution, PWS suite, has been developed and applied in its parent enterprise-wide for several years. So there is no need to further invest large capital to commercialize PWS solutions. ERP vendors have their brand name, established customer base and customer loyalties, effective sales network, and economies of scale and scope. However, these ERP vendors are also notorious for providing complicated, time-consuming, expensive, and user-unfriendly solutions. Those vendors have been working on adding more and more functions to their ERP solutions, but this means the buyers have to spend more money. In addition, the HR module in ERP systems mostly focused on HR transactional processes in the past. Now the ERP vendors recognize the high growth market trend of the EPM industry and have started to compete in this market. At this point, the ERP vendors may not apply their strength to the EPM field. It is common sense that a company cannot move its core capability or change its core competency in one night. However, as a
freshman in this field, Group X takes advantage of “doing it right the first time - DRIFT”\textsuperscript{15}, which means low in failure costs and high in effectiveness.

✓ Highly skilled IT specialists with sound HR knowledge increase bargaining power of the supplier, and thus enhance the competitive force of the industry. However, Group X has had competent specialists on board because its parent corporation possesses very strong capabilities to recruit and retain talent.

✓ Price sensitivity of the small client group, information asymmetry, and industry analysts all enforce competitive dynamics by increasing the bargaining power of buyers. However, Group X has its unique position in the market. First, its parent corporation is one of the most reputable communications companies and one of the most recognized brands in Canada. It not only has a very large customer group, but the company also is well known for its improving customer care. Group X could definitely share the intangible assets. Most Group X’s current customers are its parent corporation’s customers.

✓ Although the threat of substitutes was high previously, that is no longer the case. Because the business world realizes people are the only competitive source, and the EPM solution could help them erect barriers to lock-out competitors, the force of substitutes is diminishing quickly. The threat of Software-as-a-Service (SaaS) is not relevant to Group X since SaaS is one of Group’s strengths.

✓ The EPM market is fragmented, and there are dozens of vendors intensively competing in the industry. However, non-price competition is likely more intense in the EPM industry due to the nature of the high-tech product and industry. For

\textsuperscript{15} “Doing it Right the First Time -DRIFT” is one of the best-known American quality experts, Philip B. Crosby’s theory
example, products are differentiated and complex, technical changes and innovation are critical. Group X distinguishes itself in three ways: highly integrated solutions, specializing in key functionalities of EPM software (focus on customers’ value), and engaging users. The unique value perceived by customers may create an untested new market space for Group X (Kim and Mauborgne, 2005) and make fierce competition in the industry irrelevant.

Based on the Five-Force analysis, the EPM industry is very attractive to Group X. However, this does not necessarily mean that an attractive industry can offer a “free lunch” to all players in the field. Competitive entry strategy plays a key role in the making of a winner. The next section will discuss some key factors for success.

3.4.8 Key Success Factors

Key success factors are those elements required to compete successfully in the industry. In general, these key factors are the following:

- The right product specialized in EPM functionalities – focus on the customers’ value (i.e. the appropriate breadth of the product, the features such as integration, ease of use, flexibility, engagement)

- Distribution network - establishing effective sales force and channels

- Maintain customer good will - enhancing training, customer support, and product maintenance program

- Lock-in customers - competition based on customer economics: reducing customer costs or increasing their profits (Hax & Wilde, 1999)

- Lock-out competitors (Hax & Wilde, 1999)
The Right Product

Focus on functions creating value for customers. From a job-to-be-done (Christensen, 2000) perspective, understanding what attributes and functions customers would like to have helps a provider offer a streamlined and appropriately designed solution. The breadth of functionalities, the features, the services, and price are all factors that make the solution differentiated. Some features such as integration, ease of use, and flexibility are key success product attributes that define product competition in the EPM industry.

Distribution Network

A best-of-breed product possesses some unique features that differentiate it from its competitors. The important thing is that the provider has to communicate and expand awareness of its brand and its products’ benefits to the potential customers. The provider needs to define its communications objectives and communications strategy targeting different segments clearly. In addition, building a professional devoted marketing and sales group is critical to get access to sales channels. An alternative could be collaborating with established consulting firms, or complementors / competitors so that the new entrant can enter new markets more efficiently and get to international market quickly.

Maintain Customer Goodwill

Work together with the customers and broaden the appeal of personalized software-as-a-service model. Pay particular attention to communication with business-line executives and HR managers, instead of concentrating only on IT professionals. In order to understand how specific attributes of the product are connected to customer experience, it is useful to observe what the customers are doing, when they are using the EPM solution, and why they need it. Maintain customer goodwill by enhancing training, customer support, and product maintenance programs.
Lock-in Customers

Beyond offering the best solution, competition based on customer economics such as reducing customer costs or increasing their profits could help. One way to lock-in customers is to increase the tangible switching costs on the part of the customer. For example, customized solutions and services, customer care, consulting, and offering additional support, all play a role in locking customer in. Moreover, branding is always the classical way to enhance customers’ loyalty.

Lock-out Competitors

There is a fine line between customer lock-in and competitor lock-out situations. First customer lock-in increases switching costs, so competitors have less chance to get in. Second, try to set up barriers to prevent competitors from imitating the product and/or services. The hardest part for competitors to imitate is to leverage the human asset of the company, along with “ability to create, transfer, assemble, integrate, and exploit knowledge assets” (Soo et al., 2002, pp. 129–150). The other three possible ways to lock out competitors are branding that create customer demand, offering a continuous stream of new products that result in no gap for competitors to imitate or entry, and patents that are not sustainable for a long time though.

3.5 Group X’s Competitive Position: Blue Ocean Exploration in the EPM Industry

Kim and Mauborgne (2002) argue that instead of preparing dense documents filled with numbers and jargon for strategic planning, strategists can achieve better results by building the process around a picture. Guided by Kim and Mauborgne’s “the Four Steps of Visualizing Strategy” (Kim & Mauborgne, 2002, p.80), the analyst will elaborate how the strategy canvas of PWS is developed. The canvas visually depicts the current position and the strategic profile of

16 Refer to Appendix F
PWS in the EPM industry relative to its competitors. This is also the approach employed by John Reed, the Chairman and CEO of CITICORP. (Kim & Mauborgne, 2002). In order to see the big picture, he demands that his business unit managers present a clear strategic vision. The advantage of this approach is that it will free the creative spirit by involving plenty of visual stimulation.

Figure 3.15 & Figure 3.16 present three value canvases: (1) the industry average, (2) PWS, and (3) one vendor that has the most similar shape of value curves as that of PWS. In these figures, the horizontal axis shows the factors of competition or the breadth of offerings for the industry. Likewise, the vertical axis shows the relative level to which each vendor invests in competitive factors. There are two kinds of value curves, Curve#1 represents the breadth of the functionalities, and Curve#2 deals with the benefits of the features. The two curves indicate different dimensions of competition and the competitive position of each vendor in the EPM industry. From these two figures, one can see that PWS has medium competitive position in terms of the breadth of the functionality and the benefits of the features of the offerings. Group X’s Recognition, Mentoring/Coaching, and Learning are far above the industry average.

The key philosophy of positioning PWS would be in the customers’ mind. The value curves are not intended to convey how PWS solutions are better or faster than the competition. If the customers of PWS do not know, believe, and value the position, the product will never be a success for them anyway. Here the main usage of the value curves of PWS will be the vehicle of exploring Blue Oceans for Group X (Kim & Mauborgne, 2002).
Figure 3.15: The industry average value curve (blue line), PWS' value curve (yellow line), and Workstream's value curve (green line - this competitor has the most similar shape to that of PWS)

Breadth of Offerings

Figure 3.16: The industry average value curve (blue line), PWS' value curve (yellow line), and Workstream's value curve (green line - this competitor has the most similar shape to that of PWS)

Features - Key Elements of Product, Service, and Delivery (Factors of Competition)
3.5.1 The Three Criteria of a Blue Ocean Idea

According to Kim and Mauborgne, an effective blue ocean strategy must show three complementary qualities: focus, divergence, and a compelling tag line (2000). If a company’s strategic profile does not possess these, its strategy will likely muddled, undifferentiated, and hard to communicate. Focus means that the company does not diffuse its effect throughout all factors of competition. Divergence means that the shape of the company’s value curve should be different from that of competitors. In other words, if a company tends to be reactive to keep up with the competition, it will lose its differentiation or uniqueness. The final test of a blue ocean strategy is how well the strategy externalizes itself to a tag line. For example, Southwest Airlines’ tag line is, “The speed of a plane at the price of a car-whenever you need it.” A good tag line must convey a clear message and demonstrate a potential truthful value to clients.

3.5.2 Visual Awakening

Compared with the industry average (Figure 3.15 & Figure 3.16), the strategic canvas of PWS fails to pass the initial litmus test of the commercial viability of the blue ocean ideas (Kim & Mauborgne, 2002). While the curves do somewhat diverge from the industry average curve, basically, PWS is competing head-to-head with its competitors in a Red Ocean (a metaphor for vicious, “bloody” competition), trying to outperform its competitors based on cost and/or qualities. PWS’ two curves not only lack focus but they are also similar to their competitors’ curves. Furthermore, it does not have a strong and true-to-life tag line.

3.5.3 Visual Exploration

Visual awakening is just a wake-up call, and the subsequent job is far more challenging. Visual Exploration involves a study of the adoption hurdles for non-customers, researching the distinctive advantages of alternative products and services, and identifying the specific factors that need to be eliminated, changed, reduced, raised, and created. During this step, managers or
researchers typically go to the field to understand how current and/or potential customers use their products and what jobs need to be done by hiring the product. In general, the research activities involve in interviewing current, past and potential customers, as well as the customers of the competition. Due to time constraint, instead of real field research, the analyst interviewed staff in Group X.

The next step is to apply the Four Actions Framework (refer to Appendix G). Figure 3.17 and Figure 3.18 (Eliminate-Reduce-Raise-Create Grid) depict a strategy that simultaneously pursues differentiation and low costs to break the value-cost trade-off (Kim & Mauborgne, 2002). The grid helps Group X focus on improving and creating factors that can increase buyer value and create new demand but reduce its investments in factors on which that the rest of EPM industry competes. The next step is to apply the grid to the strategy canvas of PWS.

Figure 3.17: PWS' Eliminate-Reduce-Raise-Create Grid – Functionalities

<table>
<thead>
<tr>
<th>Eliminate:</th>
<th>Raise:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 360 feedback</td>
<td>• Competency review</td>
</tr>
<tr>
<td></td>
<td>• Manager tools</td>
</tr>
<tr>
<td>Reduce:</td>
<td>Create:</td>
</tr>
<tr>
<td>• Mentoring/Coaching</td>
<td>• E-competence and e-training</td>
</tr>
<tr>
<td>• Career planning</td>
<td>for ISO/TS certifications</td>
</tr>
<tr>
<td>• Learning</td>
<td>• Gap analysis</td>
</tr>
<tr>
<td>• Appraisal/Assessment</td>
<td>• Skill matrix</td>
</tr>
<tr>
<td>• Succession</td>
<td>• Collaboration</td>
</tr>
<tr>
<td>• Position</td>
<td></td>
</tr>
</tbody>
</table>

Based on Kim and Mauborgne, 2005
**Figure 3.18: PWS' Eliminate-Reduce-Raise-Create Grid – Benefits**

<table>
<thead>
<tr>
<th>Eliminate:</th>
<th>Raise:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Globalization</td>
</tr>
<tr>
<td></td>
<td>• Simplification (ease of use)</td>
</tr>
<tr>
<td></td>
<td>• Speed (locating records)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduce:</th>
<th>Create:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Optimization of the congruence</td>
</tr>
<tr>
<td></td>
<td>• Conformity with ISO series standards</td>
</tr>
<tr>
<td></td>
<td>• Tools of total quality management</td>
</tr>
</tbody>
</table>

Based on Kim and Mauborgne, 2005

### 3.5.4 Visual Strategy

With the insights gained from field research and help of the grid, the manager and the analyst drew and redrew Group X's strategic canvases and presented to each other. After that, it is time to draw “to be” strategy canvases for PWS. Figure 3.19 and Figure 3.20 show PWS’ “Before and After” strategic canvases. The main purpose here is to develop a new vertical market- the new segmentation of PWS, the organizations that subscribe to ISO (i.e. ISO9000, ISO14001, and so forth) certifications.
Figure 3.19: PWS' Value Curve #1 AFTER (dark red line) and BEFORE (yellow line)

Figure 3.20: PWS' Value Curve #2 AFTER (dark red line) and BEFORE (yellow line)

Features - Key Elements of Product, Service, and Delivery (Factors of Competition)
3.5.5 **Visual Communication**

This step involves communicating the “Before and After” curves throughout the PWS unit and corporate management as well. The new picture would be a reference point for future investment decisions of PWS.

3.5.6 **Implications**

So far, we have identified a new segment – the organizations that subscribe to ISO standards (i.e. ISO9000, ISO14001, and ISO/TS 16949) in all industries worldwide. The new curves focus on ISO registered organizations and diverge from current competitors. Ideally, the new “After” curves can be reviewed internally (i.e. executives, line managers) and externally (i.e. customers and non-customers). Collecting feedback on alternative strategy canvases and refining the best “future” strategy is imperative. The last thing is to develop a memorable tag line for PWS at this point.

Although the four-step planning process is not the only part of strategic planning, it enables one to visualize the very subjective strategic planning process and turn intangible strategies into pictures. The value of the approach would be to increase the chances of generating a practical blue ocean strategy (Kim & Mauborgne, 2002). To cite Aristotle, “The soul never thinks without an image.”

3.6 **New Segment Customer Analysis**

3.6.1 **PWS’ Position in Technology Adoption Life Cycle**

Geoffrey Moore (2002) has built an effective model for high-tech marketing. Figure 3.21 shows Moore’s revised technology adoption life cycle model. Like most high-tech products, the key issue of PWS is not the two cracks in the bell curve, the one between the innovators and the early adopters, the other between the early and later majority, but the deep and dividing chasm
that separates the early adopters from the early majority. Moore asserts that this chasm is the most terrifying and ruthless transition in the Technology Adoption Life Cycle. It is extremely dangerous since the chasm normally goes unnoticed, and countless new comers are doomed in the hollow place. For PWS, therefore, the first step is to discover the chasm.

In different life cycle stages, the positioning goal or the basis for the sale should be radically different. For any new technology product, the initial customer group is innovators and early adopters (Moore, 2002). For innovators, the benefit that they are pursuing is technology itself, and the innovators are known as technology enthusiasts. Early adopters are visionaries and value the benefit of dramatic competitive advantage by owning the new products. However, in the mainstream market, the early majority, also known as the pragmatists, (are the ones that say “Let somebody else debug your product” (Moore, 2002, p.32) and desire to “break the back of unsolvable problems” (Collins-Dodd, 2006).

Figure 3.21: The Technology Adoption Life Cycle

Source: Crossing the Chasm, Moore, 2002. (Used with author’s permission).

With the aforementioned theories in mind, the PWS product now targets these economic buyers (early majority) and prepares to cross the chasm. Group X needs to consider the following (Collins-Dodd, 2006) before starting a “Fire”:

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1. Build the specific niche market leading to the mainstream

2. Demonstrate intimacy with a specific segment by offering the right product that can best solve this segment's problems (offering the most appropriate approach to get the customers' job done)

3. Define the position relative to the status quo and competitors in the market

4. Focus on economic gain instead of a pure technology.

Previous analysis of strategy canvases defined PWS' niche market and the position for the future mainstream market. In particular, the new strategic canvas indicates one new investment direction for PWS-ISO certified organizations. The following analysis will elaborate a little bit more about the needs and wants of this segment's customers, and how this beachhead market would lead PWS toward overall market domination.

3.6.2 The ISO-Registered Segment

Overview

Currently, certification to quality management system standards is being pursued by all levels of government, not-for-profit organizations, schools and colleges and industries ranging from high technology firms to fire fighting equipment manufacturers. In Asia Particularly in China and India or even Japan, certification to one or more ISO series management standards is equivalent to gaining a passport to entering the international business market. According to the Standards Council of Canada (2006) and ISO (International Organization for Standardization) (ISO, 2006), there are 887,770 organizations in 161 countries that are certified to ISO9000 or /and ISO14001 series management standards as of August 26, 2006. These include various sector-specific versions that have evolved over the years. In the real world, many companies have registered one or more ISO management systems without notifying ISO or other
international organizations. For example, the published statistical data does not include those companies certified by national certification bodies. Based on data provided by WhosRegistered.com Global\textsuperscript{17}, 17,244 Canadian companies subscribed to ISO series systems, and 383 companies subscribed to QS9000. Realistically however, this number is far too conservative to reflect the real situation since this organization only lists the companies that voluntarily provide information to their “Who’s Registered.com” website\textsuperscript{18}. The actual number of certified organizations would be far larger than the published one. Compared with the total number of certified organizations worldwide published by ISO, the total number listed on WhosRegistered.com Global only counts (200,418 versus 887,770) 22.6\% of the real total number. Therefore, it is reasonable to assume that in Canada there are about 70,000 certified organizations.

**Entry Point into the Mainstream**

Moore argues, “Trying to cross the chasm without taking a niche market approach is like trying to light a fire without kindling” (2002, p.38). In this case, ISO registered organizations would be an ideal niche market for PWS to cross the chasm and win entry to the mainstream. In the following sections, we provide justification for classifying this segment as a mainstream niche market.

**Well-educated organizations**

In general, the organizations that have chosen to be certified to ISO9000, ISO/TS 16949, QS-9000, TL 9000, AS9100, and ISO 14001 either seek business improvement and ultimately business excellence, or want a ticket to trade (i.e. they are forced to do so by their customers or competitors). At the end of the process of receiving the certificate, they have experienced a


\textsuperscript{18} Ibid.
journey of applying a systematic approach to managing their corresponding business processes. Their awareness toward effectiveness and efficiency is thus higher than that of the companies without any standard management system. These are well-educated segments subscribing to modern business management philosophy. They realize the importance of strategic HR and are likely to adopt other complementary managerial tools (such as e-performance management systems) to enhance their original management systems. The ISO series standard itself has been involved in early marketing promotion indirectly for PWS, and educating the segment appropriately.

**Mandatory Requirements of ISO Series Standards**

In all ISO series management standards, including ISO 9000, ISO/TS 16949, and so forth, human resources management including competence and training and even motivation and empowerment, is a very basic element. Any major nonconformity in this area could result in withdrawal or suspension of the certificate. (Appendix H lists all corresponding mandatory requirements in ISO9001:2000 and guidelines for performance improvement in ISO9004:2000). The PWS solution could automate all related HR processes and substantially improve the bottom line by reducing costs and enhancing efficacy. This segment would recognize the benefits of the PWS solutions more easily than the others would.

**The Push from the Independent Third Party’s Periodic Audit**

Although certification to a standard is the outcome of a successful initial audit (including document review, initial visit, and certification assessment by an independent third party), the independent certification body has to assess the certified organization semi-annually and annually under specified procedures. Accredited certification bodies can seriously influence the organization’s adoption of PWS. Since third party auditors are always looking for a continuously improving management system, they generally have positive attitude toward those managerial tools like PWS that can enhance business excellence. They are inclining to promote the
applications of new technologies and/or new managerial tools if they perceive the tools or technologies will enhance their clients' business efficiency.

**The Driver of Continuous Improvement and TQM**

The PWS solution promotes high-performance culture and motivates the workforce to achieve the organization's highest potential. The intention of the PWS solution is consistent with the principles of TQM, an arguably universal powerful approach to improving organizational efficiency. Nadler et al (1992) claim that TQM, without the use of some high performance practices, is unlikely to pay-off. In addition, “Father of Quality Management”, Doctor W.E.Deming’s theory also demonstrates this. Among his 14 points for quality improvement, he notes, “Give people pride in their job” and “Institute education and self-improvement programmes.” The PWS solution not only aligns with TQM philosophy, but it also provides the tools needed to assist in the application of TQM.

**Current Problems with Implementation of ISO Standards**

As mentioned earlier, for all ISO series standards, there is an essential element of human resources management. From the 1987 version to the current 2000 version of ISO9001, ISO has enhanced and expanded the HR element in terms of importance and the degree of implementation of quality management systems. Audit experience shows that the root cause for all nonconformities found in organizations pursuing ISO9001 certifications is related to insufficient training and competency management. In addition, ISO9001:2000 standard is a prerequisite to many other specific standards, such as ISO/TS16949, QS9000 for automotive suppliers. No organization can pursue other standards without first conforming to ISO9001:2000.

The following are some relevant problems involving implementation of ISO series standards for all organizations:
For those organizations undergoing acquisitions, mergers, joint ventures, introduction of new technologies, new products, new processes, new facilities, and rapid growth or decline, paper-based systems or isolated applications are insufficient to maintain the systems’ consistency and conformity (IATF, 2002, P.9).

Audit experience shows that most companies have difficulty effectively assessing competencies and skills for each employee, or doing individual gap analysis. Experience and skill requirements vary from one position to another, even for the same job title or position. It can be almost impossible to assess each individual under a paper-based HR system, but the PWS solution is able to get the job done effectively.

The standard also requires that the organization motivate employees to achieve the company’s objectives. However, under most companies’ current system, it is hard to connect employees’ personal objectives with corporate overall objectives. In many corporations, personal and corporate objectives are inconsistent (IATF, 2002).

It is time-consuming to track employees’ performance and review the way they transfer knowledge gained from training into their job performance. One general manager (with 10,000 employees on board) once told the auditors, “I understand employee performance management and training is important, not only for maintaining my ISO certificate, but also for raising my company’s moral and productivity. Therefore, I invested lots of money and people there. I don’t know what I have missed since the efficacy seems very low.”

It takes a long time to locate the sampled staff’s training/performance records manually when an audit team conducts on-site audits in a company.
**Uncontested Market Segment**

So far, this is an untested market, and the main competitors in this segment are alternatives/substitutes such as Microsoft Excel or Word, paper-based systems, and in-house developed software, which are highly inefficient for customers in terms of “getting the job done.” Therefore, Group X’s main task at this moment is to create awareness and persuade this segment to switch from their current inconsistent and slow systems to PWS. There is no need for Group X to fight with well-established competitors and force them out of their targeted niche markets.

**Problems with adoption of technology products**

Literature review indicates that the incidence of marketplace success for new products is extremely low and shows no sign of improving. Researchers assert that the important reason of failures is that innovative new products require customers to change their behaviour in some way. Customers consider all changes as losses and “these losses loom larger than gains” in consumers’ minds than do the benefits of the new products. On the other hand, developers of new products tend to exaggerate the gain that customers would receive and undervalue the losses that customers could experience to adopt the new products. Overall, most researches agree that there are three barriers to the adoption of technology products (Gourville, 2005).

**Product-based barriers**

Adoption to technologies is significantly different from other product adoptions. To address the diffusion of technological innovations, Fichman and Kemerer cite Everett M. Rogers’ five generic attributes that influence rates of adoption: relative advantage, compatibility, complexity, trialability, and observability (McGrath et al., 2000).

Relative advantage is the degree to which an innovation is technically superior (in terms of cost, functionality, image, etc.) to the technology that it supersedes (McGrath et al., 2000, pp. 35-49). In this context, Group X has to prepare case studies and collect information to
demonstrate what advantage the customer will receive by pursuing an EPM solution offered by Group X. In general, the higher the degree of relative advantage, the more likely the solution will be adopted more quickly (McGrath et al., 2000).

Compatibility is the level of consistency that the product has with the existing values, skills and work practices of potential adopters (McGrath et al., 2000, pp. 35-49). For example, whether the PWS solution is compatible with clients' existing payroll and/or other transactional HRMS systems is a key determinant for customers when considering purchasing decisions. The higher the degree of compatibility, the more likely the innovation will be adopted more quickly (McGrath et al., 2000). Compatibility with ISO certification standards and processes is another key determinant for adoption.

Complexity relates to the relative difficulty to understand and use the innovation. As discussed before in this paper, ease of use and a user-friendly interface are two keys to stimulate adoptions. The lower the degree of complexity, the quicker one can expect the user to adopt the innovation (McGrath et al., 2000, pp. 35-49).

Trialability is the degree to which one can experiment with an innovation on a trial basis without undue effort and expense. It can be implemented incrementally and still provide a net positive benefit. In an EPM implementation, trialability will be the degree to which customers can try out the new applications and experience the benefits without having to invest in the whole system. The higher the degree of trialability, the quicker one can expect the user to adopt the innovation (McGrath et al., 2000).

Observability is the degree to which innovators can effectively communicate the results and benefits of their innovation to others and the degree to which the users can observe these
benefits. If the results can be observed and communicated to others, it is more likely the innovation will be adopted more quickly (McGrath et al., 2000).

Within these five factors, relative advantages are the most critical one. Cooper argues, “It’s almost too obvious, but a dominant success factor is having ... a superior product... that delivers unique benefits and better value to the customers” (Cooper, 1999, p.8).

**Consumer-based barriers**

As discussed in Section 3.6.1, according to Moore, there is a hollow chasm between early adopters and early majority. He argues:

“... the chasm represents the gulf between two distinct marketplaces for technology products-the first, an early market dominated by early adopters and insiders who are quick to appreciate the nature and benefits of the new development, and the second a mainstream market representing “the rest of us,” people who want the benefits of new technology but who do not want to “experience” it in all its gory details. The transition between these two markets is anything but smooth” (2002, P35).

Moore also cites that many firms are very successful in innovators and early adopters’ market but fail to enter the mainstream market to achieve a long-term success.

**Developer-based barriers**

Researchers claim that developers tend to systematically overestimate the probability and speed of adoption of their innovations (Gourville, 2005). Developers also routinely exaggerate the benefits and discount the losses that customers would have to switch from the status quo to the new products. Generally, developers are unable to understand the degree of customers’ behaviour change the innovative products require and appropriately improve or alter the new products and marketing efforts accordingly.
How to start

The first key success factor is to tailor the current PWS solution in order to suit this segment and best solve its problems. Levitt tells his students, “People don’t want to buy a quarter-inch drill. They want a quarter-inch hole!” (Christensen et al., 2005, pp. 74-83). In the PWS case, the potential customers are not interested in the software or technology itself but are attracted by the outcomes (conformity of the corresponding requirement of ISO standards) that can be achieved by hiring PWS to do their job as effectively, conveniently, and inexpensively as possible. For this segment, PWS will compete mainly with those indirect competitors. Figure 3.22 and Figure 3.23 compare PWS’ value curves with its substitutes’ value curves. These two figures illustrate that PWS’ current position versus future’s position in terms of competing with the substitutes.

Figure 3.22: Value Curve# 1 – Substitutes (pink line), Current PWS (yellow line), and Proposed PWS (dark red line)
At current time, competition may not come from competitive products as much as from alternatives (including the status quo, fear of risk, psychological resistance). Since the biggest advantages of substitutes are ease of use and low price, at the beginning, PWS should avoid offering highly expensive and complicated solutions that frighten customers. Instead, Group X should eliminate some of the functionality, but emphasize ISO conformity, speed, reliability, congruence, flexibility, and integration. These features are unavailable via substitute products. After customers experience the benefits of the PWS solution and start to value PWS’ dependable qualities, it is time to raise the price and increase functionality. At that time, the value that PWS creates for customers greatly outweighs the price in customer’s mind.

3.7 Summary

This chapter demonstrates that the industry, Employee Performance Management, is an attractive industry to Group X. Since this highly fragmented market is attracting many new entrants, it is anticipated that the industry will become even more competitive in the near future.
Based on industry analysis and market characteristics, some general key success factors are presented for Group X. Then, following the top 12 competitor analysis, a new high growth strategy, the Blue Ocean Strategy, is explored. Here we develop current and future strategy value curves for a new segment comprised of ISO-registered organizations. This is an untested new market space for PWS. By entering markets that are not served or not served well by incumbent firms, Group X could avoid costly battles and postpone head-to-head competition with the incumbent and build strength for a future direct challenge to established firms (Spulber, 2003).
4 AN INTERNAL VIEW OF GROUP X

4.1 Purpose of this Chapter

The main goal of this internal analysis is to distinguish between the existing and prospective sources of sustainable competitive advantage. Also, this analysis seeks to identify the obstacles that lie in the way of obtaining or maintaining a sustainable competitive advantage.

In order to appreciate the internal characteristics of Group X, this chapter first presents the organizational structure of the group through analysis. An organizational analysis such as this not only provides the reader with an overview of the responsibilities of the staff but it also gives the reader a deeper knowledge of the structure of this group and the implications that such a structure has on the group’s long-term and short-term goals. Moreover, this section presents the first analysis of Group X’s fit with Company ABC.

The next section of this chapter discusses Group X’s tangible and intangible assets with special emphasis on the origin of Group X in relation to Company ABC. This relationship is important since the performance of Company ABC impacts Group X’s potential for future success – the better Company ABC does, the more likely this small division will have a bright future. Although the story of Group X has been told in previous chapters, the specifics of Group X’s impact on Company ABC will be documented for the first time in this section.
4.2 Organizational Structure

4.2.1 Organizational Framework Overview

This section presents an analysis of the organizational structure for Group X and that of its parent corporation, Company ABC. This analysis utilizes Henry Mintzberg’s Organizational Framework that we describe in the sub-sections that follow (Mintzberg, 1980).

Mintzberg’s Organizational Framework

Henry Mintzberg presented five organizational descriptions in a 1980 article based on an organizational framework depicted in Figure 4.1 below.

Figure 4.1: Mintzberg’s Organizational Framework

In his paper, he described the Strategic Apex as top management and the Operating Core as the individuals who do the basic work of the organization. Additionally, Mintzberg describes the Middle Line as the “intermediate managers between the chief executive and the workers” (Mintzberg, 1980, p. 3) and the Technostructure as “the analysts who design systems concerned
with the formal planning and control of the work” (Mintzberg, 1980, p. 3). Finally, he describes the Support Staff as those who support the rest of the organization with “indirect services” e.g. cafeteria workers, mail room workers and even legal services personnel. According to Mintzberg, however, not all of these parts are essential to every organization. We present Mintzberg’s five organizational configurations in Appendix J.

4.2.2 Organizational Analysis of Group X and Company ABC

Pre-Analysis Findings

Group X initially appears to have a Simple Structure (see Figure 4.2) since direct supervision comes from the apex position – in this case the General Manager – and there is “a minimum of staff and middle line [workers]” (Mintzberg, 1980, p. 4).

Figure 4.2: Organizational Structure for Group X

For Company ABC, however, the organizational chart shown in Figure 4.3 displays a visibly Divisionalized organizational structure. Again, this is only based on a first-glance at Company ABC.

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Moreover, Mintzberg argues that all organizations feel the underlying pull of all five configurations – "the pull to centralize by top management, the pull to formalize by the technostructure, the pull to professionalize by the operators, the pull to [divisionalize] by the managers and the middle line and the pull to collaborate by the support staff." (Mintzberg, 1980, p. 12).

In most cases, one pull expectedly prevails over the others but Mintzberg cautions that "one pull does not always dominate [and] two may have to exist in balance." In order to make these types of investigations into an organization's structure, Mintzberg presented fourteen dimensions that assist in analyzing the degree to which an organization falls into any given configuration and we present these in the next section.

**Post-Analysis Findings: Company ABC**

Interviews with top engineering management quickly revealed that the Pre-Investigation Findings were accurate (see Table 4-1 & Table 4-2) i.e., company ABC has a majority of dimensions that fall under the *Divisionalized Form* structure.
Table 4-1: The First Seven Dimensions of Mintzberg’s Five Configurations for Company ABC

<table>
<thead>
<tr>
<th>Simple Structure</th>
<th>Machine Bureaucracy</th>
<th>Professional Bureaucracy</th>
<th>Divisionalized Form</th>
<th>Advocacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key means of coordination</td>
<td>Direct supervision</td>
<td>Standardization of work</td>
<td>Standardization of skills</td>
<td>Standardization of outputs</td>
</tr>
<tr>
<td>Key part of organization</td>
<td>Strategic apex</td>
<td>Technostructure</td>
<td>Operating core</td>
<td>Middle line</td>
</tr>
<tr>
<td>Specialization of jobs</td>
<td>Little Specialization</td>
<td>Much horizontal and vertical specialization</td>
<td>Much horizontal specialization</td>
<td>Some horizontal and vertical specialization</td>
</tr>
<tr>
<td>Training and indoctrination</td>
<td>Little training and indoctrination</td>
<td>Little training and indoctrination</td>
<td>Much training and indoctrination</td>
<td>Some training and indoctrination</td>
</tr>
<tr>
<td>Formalization of behavior</td>
<td>Little formalization-organic</td>
<td>Much formalization-bureaucratic</td>
<td>Little formalization-bureaucratic</td>
<td>Much formalization (within divisions) - Bureaucratic</td>
</tr>
<tr>
<td>Grouping</td>
<td>Usually functional</td>
<td>Usually functional</td>
<td>Functional and market</td>
<td>Market</td>
</tr>
<tr>
<td>Unit size</td>
<td>Wide</td>
<td>Wide at the bottom narrow elsewhere</td>
<td>Wide at the bottom narrow elsewhere</td>
<td>Wide at top</td>
</tr>
</tbody>
</table>

The fourteen dimension matches are nearly all under the Divisionalized Form column (Table 4-1 & Table 4-2) which reinforces the initial, Pre-Investigation findings and places Company ABC unquestionably under the Divisionalized Form structure.
Table 4-2: The Last Seven Dimensions of Mintzberg's Five Configurations for Company ABC

<table>
<thead>
<tr>
<th></th>
<th>Simple Structure</th>
<th>Machine Bureaucracy</th>
<th>Professional Bureaucracy</th>
<th>Divisionalized Form</th>
<th>Adhocracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and control</td>
<td>Little planning and control</td>
<td>Action planning</td>
<td>Little planning and control</td>
<td>Much performance control</td>
<td>Limited action planning</td>
</tr>
<tr>
<td>control systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liaison devices</td>
<td>Few liaison devices</td>
<td>Few liaison devices in administration</td>
<td>Few liaison devices</td>
<td>Many liaison devices throughout</td>
<td></td>
</tr>
<tr>
<td>Decentralization</td>
<td>Centralization</td>
<td>Limited horizontal decentralization</td>
<td>Horizontal and Vertical decentralization</td>
<td>Limited vertical decentralization</td>
<td>Selective decentralization</td>
</tr>
<tr>
<td>Age and size</td>
<td>Typically young and small</td>
<td>Typically old and large</td>
<td>Varies</td>
<td>Typically old and very large</td>
<td>Typically young</td>
</tr>
<tr>
<td>Technical System</td>
<td>Simple, not regulating</td>
<td>Regulating but not automated, not very</td>
<td>Not regulating or complex</td>
<td>Very complex, often automated (administrative) not regulating or complex (operating)</td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>Simple and dynamic</td>
<td>Simple and stable</td>
<td>Complex and stable</td>
<td>Diversified markets</td>
<td>Complex and dynamic</td>
</tr>
<tr>
<td>Power</td>
<td>Chief executive control</td>
<td>Technocrat and external control</td>
<td>Professional operator control</td>
<td>Middle-line control</td>
<td>Expert control</td>
</tr>
</tbody>
</table>

Post-Analysis Findings: Group X

Unlike the more clear-cut case of analyzing Company ABC, the process for Group X was a little less trivial. Utilizing the fourteen dimensions of Mintzberg’s five previously mentioned configurations as a basis for discussion (see Table 4-3), we conducted two sets of interviews with select members of Group X. The first interview was with the General Manager without exposing him to Mintzberg’s framework and dimensions and the second was with Group X principal staff after explaining Mintzberg’s framework and dimensions. The idea behind this process was to get an understanding of where the power lies in the organization from the leadership’s point of view first. The authors then used this information to create a primary matrix of Dimensions vs. Configurations. Once we completed this, we introduced Mintzberg’s concepts to the rest of the staff and interviewed them on their thoughts on the organization concerning these concepts. The author then checked the original matrix for inconsistencies and re-interviewed the leadership concerning those. We divide the final matrix into two tables for easier readability as presented in Table 4-3 and Table 4-4 below.

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Table 4-3: The First seven Dimensions of Mintzberg's Five Configurations for Group X

<table>
<thead>
<tr>
<th></th>
<th>Simple Structure</th>
<th>Machine Bureaucracy</th>
<th>Professional Bureaucracy</th>
<th>Divisionalized Form</th>
<th>Adhocracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key means of coordination</td>
<td>Direct supervision</td>
<td>Standardization of work</td>
<td>Standardization of skills</td>
<td>Standardization of outputs</td>
<td>Mutual adjustment</td>
</tr>
<tr>
<td>Key part of organization</td>
<td>Strategic apex</td>
<td>Technostructure</td>
<td>Operating core</td>
<td>Middle line</td>
<td>Support staff</td>
</tr>
<tr>
<td>Specialization of jobs</td>
<td>Little specialization</td>
<td>Much horizontal and vertical specialization</td>
<td>Much horizontal specialization</td>
<td>Some horizontal and vertical specialization</td>
<td>Much horizontal specialization</td>
</tr>
<tr>
<td>Training and indoctrination</td>
<td>Little training and indoctrination</td>
<td>Little training and indoctrination</td>
<td>Much training and indoctrination</td>
<td>Some training and indoctrination</td>
<td>Much training</td>
</tr>
<tr>
<td>Formalization of behavior</td>
<td>Little formalization-organic</td>
<td>Much formalization-bureaucratic</td>
<td>Little formalization-bureaucratic</td>
<td>Much formalization (within divisions) - Bureaucratic</td>
<td>Little formalization-organic</td>
</tr>
<tr>
<td>Grouping</td>
<td>Usually functional</td>
<td>Usually functional</td>
<td>Functional and market</td>
<td>Market</td>
<td>Functional and Market</td>
</tr>
<tr>
<td>Unit size</td>
<td>Wide</td>
<td>Wide at the bottom narrow elsewhere</td>
<td>Wide at the bottom narrow elsewhere</td>
<td>Wide at top</td>
<td>Narrow throughout</td>
</tr>
</tbody>
</table>

Looking at the first seven dimensions in Table 4-3, three are Simple Structure, three are Machine Bureaucracy, and three are Adhocracy with one falling under the Machine Bureaucracy configurations as well. It is therefore necessary to examine the patterns of the last seven dimensions (Table 4-4) to see which structure dominates.
Looking at the last seven dimensions in Table 4-4, there is even less Machine Bureaucracy presence compared to that in the first seven dimensions – just one box this time. There is just one Professional Bureaucracy box as well but the Simple Structure and the Adhocracy have four and three boxes respectively. In this second table, therefore, the Simple Structure dominates the Adhocratic Structure by just one Dimension-Configuration box. Clearly, therefore, Group X is a hybrid Simple-Adhocratic Structure.

4.2.3 Issues

The first major issue is the type of environment that Group X currently serves. Right now, they are serving a “simple and dynamic” environment which means that the environment is easy to understand (i.e., simple) but requires flexibility in structure due to “the difficulty in standardizing work, outputs, or skills” (i.e. dynamic). The latter is certainly true of their environment but the former is not true since their market is not easy to understand; the number and varying types of potential clients who could benefit from a workforce performance e-solution is mind-boggling to say the least. Understanding these various potential markets and being able
to address them is to see that the environment is indeed complex. This is not only key to competing in their environment, however, but it is most important when trying to create new markets (e.g. for a Blue Ocean Strategy).

The second major issue is the stark difference in organizational structure between Group X and Company ABC. Company ABC’s configuration based on Mintzberg’s fourteen dimensions is clearly a Divisionalized Structure while that of Group X is a hybrid Simple-Adhocracy Structure. What this means is there are certain dimensions that are incompatible between the two organizations. The most notable ones are: (1) key means of coordination, (2) formalization of behaviour, (3) planning and control systems, and (4) the environment. We explore the implications of these differences in Chapter 5’s Issues of Fit under the Current Strategy section (Section 5.2.6).

No further conclusions can be made concerning these findings at this point; however, since there are still more factors that will affect Group X’s ability to compete in its external environment. We will discuss and analyze these factors in the following sections.

4.3 Intangible Assets

4.3.1 The Group X Story

The most important thing about Group X is that Company ABC uses the e-HR product that they produce – PWS – to great success. With regards to the internal use of PWS, Group X’s GM likens Company ABC to “a champagne manufacturer that drinks and enjoys its own fine champagne”. This is a testament to the effectiveness of the PWS tool in transforming Company ABC from a hodgepodge collection of small companies with diverse cultures into a high-
performance organization that has made this company a global industry leader in many areas including growth, EBITDA\textsuperscript{19}, customer satisfaction and customer retention.

This story of overcoming these hurdles is a key asset to Group X since Company ABC’s first customers came knocking when they heard this triumphant story of transformation and wanted to know how they could have the same level of success for their own organizations.

4.3.2 Company ABC Brand

As the second-largest telecommunications company in Canada and the largest one in Western Canada, Company ABC is a trusted name in providing quality wireline and wireless telecommunications products and services to its many customers including data, internet, voice, video and entertainment. Company ABC is an established national brand that has provided customers with quality products and services for 7 years. Therefore, their very name is an important asset to themselves and their associated ventures including the Group X organization.

4.3.3 Company ABC’s Recognition for HR Practices

Due to the success of their PWS product within Company ABC, they have garnered many prestigious awards for their HR practices including the 2004 & 2005 award for the “best leadership development program” from Thompson NETg, the 2003 & 2004 award for their training and development practices from the American Society for Training and Development (ASTD) the Award of Excellence in 2002 for “outstanding people practices reflecting leadership and innovation, and delivering strategic advantage with sustainable results” from BC Human Resources Management (BCHRHM), the 2002 award for “One of Canada’s Top Companies to Work For” from Globe and Mail’s Report on Business (R.O.B.) magazine, and three “Best in Class” awards in 2002 from the National Association for Employee Recognition (NAER). The

\textsuperscript{19}EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization
buzz within the HR realm created by these awards has assisted in providing Group X with unsolicited business and is thus an important asset to their success.

4.3.4 Group X Customer Satisfaction / Word of Mouth

Based on Group X's customer satisfaction surveys, Group X has exceeded expectations on all levels for their customers. As of the last customer survey (Client Feedback Form), Group X's customers have reported that Group X: "understands [the client's] business and what [the client] needs" (over 88% of customers surveyed said this), is "dependable and responsive" (87%), is "proactive" (83%), is "easy to do business with" (96%), and "takes personal ownership of [the client's] requests" (100%). Satisfied customers attract other potential customers and thus the effects of the intangible but high-level of "customer satisfaction / word of mouth" in Group X is a strong asset for them.

4.4 Tangible Assets

4.4.1 Internal Impact of PWS on Company ABC

Group X's PWS product has made a financial impact on Company ABC as follows: (1) 150,000 online courses which resulted in a 3-year cumulative savings of $30M compared to the cost of traditional classroom training, (2) 94% usage rate of online performance management resulting in $2M in savings, (3) $1.2M cost reduction of HR services and (4) 46% reduction in HR staff.

Company ABC's Financial Assets & Performance

In their 2005 annual report, Company ABC shows that it has met and often exceeded its financial and performance goals (see Table 4-5:). This means that Group X is operating within a company that is committed to its shareholders and to the success of the company as a whole. Therefore, with Company ABC’s ongoing financial success, Group X is, in theory, in a good
position to succeed as well. There are more factors to consider here, however, and we will discuss these later in the document.

Table 4-5: Company ABC’s Performance 2005

<table>
<thead>
<tr>
<th>Policies and Guidelines</th>
<th>Target</th>
<th>2005 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt to capital policy</td>
<td>45 to 50%</td>
<td>46%</td>
</tr>
<tr>
<td>Net debt to EBITDA policy</td>
<td>1.5 to 2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Bond ratings policy</td>
<td>BBB+ to A- (or equivalent)</td>
<td>Three agencies at BBB+ and one at BBB</td>
</tr>
<tr>
<td>Dividend payout guideline</td>
<td>45 to 55% of sustainable net earnings</td>
<td>56%¹</td>
</tr>
</tbody>
</table>

¹ Current dividend annualized on 2005 EPS. ² Current dividend annualized on midpoint of 2006 EPS target.

Physical Assets

Perhaps the greatest physical asset available to Group X is Company ABC’s impressive infrastructure. As the second-largest telecommunications company in Canada, Company ABC’s infrastructure provides Group X with an advantageous resource that is key to its business’ success.

First, due to the enormity of its network, a localized network “issue” is not a major problem since the sheer size of the network provides redundancy in connectivity and thus helps to eliminate network connection failures.

Second, since Company ABC also is a major web service provider and one of the biggest data centres in Canada, it has the capacity to provide Group X’s customers with sufficient back-up of their PWS system’s data in a relatively effortless manner. Moreover, the hardware on which the data is stored and on which transactions are processed is not only state-of-the-art, but also duplicated for further redundancy with regards to performance.
Since Group X’s customers will trust them with sensitive employee data, security of that data is a major issue. As pointed out earlier, Company ABC is one of Canada’s largest web service providers and thus data security is an essential and well-provided element of this type of service.

As one of Canada’s biggest data centres, Company ABC monitors its web and database facilities around the clock, seven days a week. Moreover, these services are already in place for its existing customers – including Group X’s PWS customers. Therefore, any alarms or warnings will be handled immediately by skilled technicians and engineers whose job it has always been to ensure Company ABC’s web services and database services are running smoothly at all times.

4.5 Analysis of Group X’s Value Chain

We base Group X’s value chain presented here on Porter’s Modified Value Chain. Company data and interviews with Group X personnel were the foundation for the creation of the following value chain (see Figure 4.4).
4.5.1 Inbound Logistics

At the Inbound Logistics part of the value chain, the elements that are essential to the success of Group X before operations begin are assembled and readied for action. The main task here is to obtain and maintain top talent within Group X. The logistics of this are handled internally i.e. within Group X. Moreover, quite often when time or resources within Group X do not permit the exclusive use of Group X personnel, they seek out talent external to the group but still within company ABC.

4.5.2 Operations

The focus here is on operations that define the fundamental work that Group X has chosen to engage in towards providing the products and features that customers demand. These operations are R&D, Software Development, Trial Planning and Implementation and Product Implementation.
Group X manages its R&D with an eye on providing the software development team with a basis for their programming duties. Once the latest version of the software is ready, Group X plans and implements trials with potential and existing clients. After they accomplish this, Group X then implements the product on behalf of the customer.

4.5.3 Outbound Logistics

The key here is to focus on the value that can be added to the customer and how that value can be provided to the customer. Here, Group X first seeks to understand the client’s business goals and uses this information as an anchor later on when providing solutions for the client in the Operations part of the value chain. As a further step in this direction, Group X also collaborates with the client’s HR team to get a clear picture of what framework already exists. Finally, external to any one, specific client is the objective to manage all clients’ expectations towards maintaining a positive image in their industry.

4.5.4 Marketing and Sales

Group X handles marketing and Company ABC handles Sales. Group X’s marketing approach consists of making presentations that highlight their strengths as they relate to their capabilities and resources. At present, the main solicitors of these presentations are companies that have heard of how Group X’s product, PWS, has transformed Company ABC.

Company ABC handles sales matters. However, sales personnel only have limited information about PWS and they sell it along with the existing products that ABC sells.

4.5.5 Service

Again, both Group X and ABC are involved in this part of the Value Chain. Company ABC handles basic questions that typically deal with ABC’s technical infrastructure (i.e. Web
Service, Network Connectivity and Database functionality). As mentioned before, Group X pays ABC for this and this is therefore a cost centre activity.

However, Group X handles PWS-specific questions themselves within working hours. The member of the group that is most suited to answering a specific question will take the call on behalf of the group. Since the group is quite small, some Group X members have made strong relationships with certain customers. It is for this reason that Group X’s customer service record is so impressive (see Section 4.3.4 on p. 97).

4.5.6 Issues

The first issue raised by Group X’s value chain is the fact that Company ABC’s sales staff is not dedicated to Group X’s product. Moreover, this is the only sales entity actively selling Group X’s PWS product. Therefore, much of the sales are “by the way” which does Group X a great disservice. The findings show that Company ABC’s sales staff are not sufficiently trained on the PWS product which stems from the fact that their commissions are far smaller compared with ABC’s much more lucrative product line; understandably, the sales personnel don’t see the value in spending the time and effort learning a product that can only bring them small comparative returns. This means that Group X is not maximizing sales volumes for themselves. Clearly, this is a problem since their future growth depends, in part, on their ability to elevate external interest in their product. The next section looks in more detail as to what exactly makes Group X competitive towards providing them with a better understanding of the things that will give them long-term sustainability.

The second issue is the fact that Group X’s marketing is reactionary at best. Although the group’s GM visits potential clients presenting the PWS product and his group’s capabilities, these opportunities are mostly due to word-of-mouth marketing. Clearly, if word-of-mouth has
been so successful for the group, then a focused marketing campaign could take them beyond their wildest dreams.

4.6 Sustainability Analysis for Group X

4.6.1 ASSIST Analysis

In this section, we utilize Porter's modified value chain from the previous section as the foundation for a sustainability analysis (Duncan et al., 1998). Once we have drawn up the value chain, we then examine Group X's strengths and weaknesses. Next, we do an Assessment of Internal factors for Strategic Advantage (ASSIST) analysis based on these previously identified strengths and weaknesses. Within this framework, we classify each strength and weakness as either a resource or a capability. Once completed, we assess the extent of competitive advantage for each strength and weakness. Table 4-6 & Table 4-7 show the "competitively relevant" strengths and weaknesses as the cells not shaded yellow.

Table 4-6 lists all of Group X's strengths (Sn) and weaknesses (Wn) that are resource-based and Table 4-7 lists those that are capability-based. We then rate each one of these based on Value to customers, Rareness in the market, level of Imitability, and level of Sustainability.
Next, we attempt to gauge the level of competitive advantage for Group X by assigning one of the following six values to each strength or weakness based on the four attributes mentioned above i.e. Value, Rareness, Imitability and Sustainability (Duncan et al, 1998, p. 12):

1. **Inadequate**: Below the minimum required to be in this industry

2. **Adequate**: Minimum required to be in this business or to minimally compete

3. **Attractive**: Better than the minimum required to compete but *does not provide a particular advantage or disadvantage*.

4. **Potential**: Sufficient to attract attention and represents important strategic considerations.

5. **Competitive**: Clear competitive advantage/disadvantage relative to members of the strategic group.

6. **Distinctive**: Cannot be duplicated by competitors.

Finally, each strength is examined further by answering the questions: (1) is this strength subject to competitive erosion (imitation or substitution) and (2) is this strength subject to appropriation (hold-up by stakeholders or internal slack). This final step is complementary to rating the strength by the six values above and results in a more thorough evaluation of that strength.
Table 4-6: Resource-Based Assessment of Internal Factors for Strategic Advantage (ASSIST)

<table>
<thead>
<tr>
<th>RESOURCES</th>
<th>VALUE</th>
<th>RARENESS</th>
<th>IMITABILITY</th>
<th>SUSTAINABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>56.1.1</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Potential</td>
<td>Potential</td>
</tr>
<tr>
<td>56.1.2</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.1.3</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Competitive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.2.1</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.2.2</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.2.3</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
</tr>
<tr>
<td>56.3.1</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.3.2</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.4.1</td>
<td>Competitive</td>
<td>Competitive</td>
<td>Competitive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.5.1</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.5.2</td>
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<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.5.3</td>
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<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.6.1</td>
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<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
</tr>
<tr>
<td>56.6.2</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
</tr>
<tr>
<td>56.6.3</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
</tr>
<tr>
<td>56.7.1</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.7.2</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.7.3</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.8.1</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.8.2</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.8.3</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Distinctive</td>
<td>Competitive</td>
</tr>
<tr>
<td>56.9.1</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.9.2</td>
<td>Attractive</td>
<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.9.3</td>
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<td>Attractive</td>
<td>Competitive</td>
<td>Potential</td>
</tr>
<tr>
<td>56.10.1</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
<td>Adequate</td>
</tr>
<tr>
<td>56.10.2</td>
<td>Unattractive</td>
<td>Unattractive</td>
<td>Unattractive</td>
<td>Unattractive</td>
</tr>
<tr>
<td>56.10.3</td>
<td>Unattractive</td>
<td>Unattractive</td>
<td>Unattractive</td>
<td>Unattractive</td>
</tr>
</tbody>
</table>

*Non-highlighted Strengths & Weaknesses: Resources that offer Potential Competitive Advantages and Disadvantages

Based on Duncan, Ginter & Swayne’s “Competitive Advantage and Internal Organizational Assessment”

The result of this analysis shows that out of the ten Resource-based strengths shown in Table 4-6, only three are competitive in nature: Company ABC’s brand name, Company ABC’s story and Group X’s high level of customer satisfaction. We expand on these in the following sub-sections below.

**Company ABC’s Brand Name**

Backed by Company ABC, Group X’s PWS product has one of Canada’s most recognized brand names attached to it. As mentioned before, company ABC is one of Canada’s leading telecommunications companies and is a household name for reliability and corporate excellence. More importantly, none of the other competitors in this market has a brand name that is as nationally recognizable. This means that the very nature of this advantage prevents it from being subject to erosion and appropriation.

**Company ABC’s Story of Transformation**

Also discussed earlier in this document is that fact that Company ABC found great success after merging different companies and cultures to form the synergistic and highly
functional organization that stands today. That transformation from a diverse group of companies and cultures into a single, productive, and financially successful corporation with a single, functional culture was successful due to the company’s focus on Human Resource Management issues. The reason that this is such a phenomenon is because such a successful transformation story is unheard of. Realizing this and seeing the potential for income from this, Company ABC formed Group X to develop, code, and package these corporate transformation methods and processes that emphasize a “high performance workforce” for ultimate sale to customers. Clearly, this is a unique attribute and thus it provides Company ABC with a competitive advantage over its rivals. Again, by its very nature, such an advantage is subject to neither erosion nor appropriation.

**Group X’s High Level of Customer Satisfaction**

Customers have responded to Group X’s periodic customer satisfaction surveys very favourably. The result of their most recent customer satisfaction survey\(^\text{20}\) speaks for itself:

- Group X: “understands [the client’s] business and what [the client] needs” (over 88%),
- Group X is “dependable and responsive” (87%)
- Group X is “proactive” (83%)
- Group X is “easy to do business with” (96%)
- Group X “takes personal ownership of [the client’s] requests” (100%).

The percentages above represent the proportion of affirmative responses to each of the five categories of questions posed. Customer satisfaction is a key issue for most technology-based companies. Therefore, having such a stellar relationship with customers as Group X has with theirs is a major competitive advantage over the opposition. This advantage is clearly not

\(^{20}\text{Group X Client Feedback 2006 Results. Survey from Friday July 28th to Sunday October 1st, 2006}\)
subject to appropriation (hold-up or slack). Moreover, such a high level of customer satisfaction will be very hard to imitate.

Table 4-7: Capability-Based Assessment of Internal Factors for Strategic Advantage (ASSIST)

<table>
<thead>
<tr>
<th>CAPABILITIES</th>
<th>VALUE</th>
<th>RARENESS</th>
<th>IMITABILITY</th>
<th>SUSTAINABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>S11 Redundancy for Data, Hardware, and Network Connectivity       Attractive</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td></td>
</tr>
<tr>
<td>S12 ABC’s Monitoring Systems for Client Databases, Web Servers, Network Connectivity       Attractive</td>
<td>Potential</td>
<td>Potential</td>
<td>Potential</td>
<td></td>
</tr>
<tr>
<td>S13 Ability to offer Customers fast and easy implementation of product      Competitive</td>
<td>Competitive</td>
<td>Potential</td>
<td>Competitive</td>
<td></td>
</tr>
<tr>
<td>S14 Ability to quickly demonstrate and confirm product’s ease of use      Competitive</td>
<td>Competitive</td>
<td>Potential</td>
<td>Competitive</td>
<td></td>
</tr>
<tr>
<td>W3 Group X Management does not have necessary clout to make PWS a priority for Company ABC      Unattractive</td>
<td>Uncompetitive</td>
<td>Uncompetitive</td>
<td>Uncompetitive</td>
<td></td>
</tr>
</tbody>
</table>

Based on Duncan, Ginter & Swayne’s “Competitive Advantage and Internal Organizational Assessment”

The result of this analysis shows that out of the four Capability-based strengths shown in Table 4-7, only two are competitive in nature: (1) Group X’s ability to quickly demonstrate and confirm the product’s ease of use and (2) their ability to implement their product in a timely manner. The analysis also shows a weakness, W3, which is their inability to influence Company ABC that their business deserves to be a priority. We will examine all of these areas in the following sub-sections below.

 Ability to Offer Customers Fast and Easy Implementation of Product

Group X has the ability to offer their customers fast and easy implementation of PWS since they are using an application development tool rather than using line-by-line software coding. Compared to line-by-line coding, application development tools offer programmers a faster way to get their application to market. Moreover, Group X’s application developers are were chosen for the job based on their business acumen. Therefore, their use of the application development tool allows the developers to concentrate on tailoring their product to each customer’s business needs with a minimal amount of time spent on coding. Organizations that have opted to use line-by-line coding inevitably find themselves spending weeks or months on countless “if-then-else” statements and very little time learning about their customers’ needs.
Therefore, the ability to use application development tools gives Group X a competitive edge over their competitors due to the speed of implementation and their ability to have a deeper knowledge of their customers' business needs.

**Ability to Quickly Demonstrate and Confirm Product’s Ease of Use**

This is a competitive strength for the same reasons identified in the previous section – i.e., the use of application development software and the business acumen of Group X’s developers. These two factors allow Group X to tailor prototypes of their software to each client’s specific needs very quickly. Again, if line-by-line code were used, this would not be a trivial exercise. Therefore, since Group X can rapidly show their customers the benefits of using PWS through their swift development process, this is clearly a competitive advantage for them.

**Inability to Enhance Profile of Group X to Priority Status within ABC**

The most note-worthy weakness for Group X is the fact that they do not have the necessary “pull” with upper management to make their group and their product a priority for Company ABC. As it stands today, Group X has no formal sales force or marketing group to tout the “wonders” of PWS. Moreover, the General Manager’s (Group X’s strategic Apex) influence with upper management is not sufficient to ensure that Group X makes the necessary strides to fulfil their true market potential.
4.6.2 Analysis of Potential Sources of Competitive Advantage

Finally, for each strength or weakness, we investigate and categorize the source of competitive advantage as either a Cost Driver or a Uniqueness Driver (see Table 4-8) and we link these to the elements of the value chain.

Table 4-8: Group X’s Strengths and Weaknesses: Identifying Potential Sources of Competitive Advantage or Disadvantage

<table>
<thead>
<tr>
<th>STRENGTHS / WEAKNESSES</th>
<th>DESCRIPTION</th>
<th>POTENTIAL SOURCE OF COMPETITIVE ADVANTAGE / DISADVANTAGE</th>
<th>LOCATION ON MODIFIED VALUE CHAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>S4</td>
<td>Widely Recognized and Respected Brand Name</td>
<td>UNIQUENESS DRIVER</td>
<td>MARKETING &amp; SALES</td>
</tr>
<tr>
<td>S5</td>
<td>Inspiring Story: Product and effect of product on Company ABC well-known in HR circles</td>
<td>UNIQUENESS DRIVER</td>
<td>MARKETING &amp; SALES</td>
</tr>
<tr>
<td>S7</td>
<td>VERY HIGH CUSTOMER SATISFACTION</td>
<td>UNIQUENESS DRIVER</td>
<td>SERVICE</td>
</tr>
<tr>
<td>S13</td>
<td>Industry leader in implementing cutting-edge technology towards providing customers fast and easy implementation of product</td>
<td>UNIQUENESS DRIVER</td>
<td>MARKETING &amp; SALES</td>
</tr>
<tr>
<td>S14</td>
<td>Ability to quickly demonstrate and confirm product’s ease of use</td>
<td>UNIQUENESS DRIVER</td>
<td>MARKETING &amp; SALES</td>
</tr>
<tr>
<td>W3</td>
<td>Group X Management does not have necessary clout to make PWS a priority for Company ABC</td>
<td>UNIQUENESS DRIVER</td>
<td>ORGANIZATIONAL INFRASTRUCTURE</td>
</tr>
</tbody>
</table>

Based on Duncan, Ginter & Swayne’s “Competitive Advantage and Internal Organizational Assessment”

4.6.3 Issues

Currently Group X is mainly selling their product based only on their Inspiring Story and on the strength of their brand (S4 & S5 in Table 4-8) and not on their other three strengths. This means that there are more benefits to PWS that they are not actively selling themselves on which is a clear limitation to their potential for greater profits. This issue ties in with the previously mentioned issue of lack of sales focus.

In addition, Group X is not in a position to influence upper management to treat their business as a key component in Company ABC’s corporate future success. Therefore, this is an issue of “lack of fit” within the organization. We will look at the organizational alternatives open to Group X in further detail in a later section.
4.7 Summary

At the end of this internal analysis, we have identified five sources of sustainable competitive advantage: (1) Group X’s attachment to a widely recognized and respected brand name, (2) the inspiring story attached to their product, (3) stellar customer satisfaction, (4) the ability to provide customers fast and easy implementation of the product, and (5) the ability to quickly demonstrate and confirm the product’s ease of use.

Also, upon completion of this analysis, we have identified two major issues that can negatively affect a sustained competitive advantage: (1) Group X’s current organizational structure which prevents them from maximizing their effectiveness in serving the complex environment that defines their market and (2) Group X’s lack of influence within Company ABC which prevents them from elevating their profile into ABC’s corporate strategy for future success.

The following chapter takes this discussion further as it addresses how well these strengths actually fit in with Group X’s current strategy.
5 GREY SKIES EXPECTED FOR GROUP X UNDER STATUS QUO

5.1 Purpose of This Section

This analysis connects all the previous sections – collectively called the *Situational Analysis* – with the final chapter, i.e., the *Solution Analysis*. The way we do this is by first summarizing the current strategy and performance of the group by way of a *Situational Assessment* including the scope of Group X, its product-customer segments, its competitive stance, and its value chain (functional) strategy. Next, we provide a *Strategic Prognosis* of the group’s strategy by first examining their expected future performance under *Status Quo*. Here we are seeking to evaluate the group’s current strategy towards concluding whether it fits their future goals. This is an important step since it provides a rationale for action. The ultimate objective here, however, is to provide the Group X with strategic direction and this is presented in the last sub-section of this chapter.

5.2 Situational Assessment of Group X: Current Strategy

5.2.1 Group X’s Product Scope

As we established in chapter 3 (Section 3.2) Group X is competing in the EPM industry. However, since the EPM industry is in its early stages of development and we see new segments emerging every day, no one can confidently conclude what the exact scope and boundaries of this industry are at present.
5.2.2 Product-Customer Positioning

From Group X's industry Product-Customer Matrix, Group X is pursuing customer-oriented strategy, which means Group X sells many different products (i.e. 9 products in a PWS suite) to a few customer segments (i.e. medium to large sized service industry segments in the Canadian market). Its current growth strategy is to penetrate Company ABC’s large customer base of communications products. The developers are adding necessary functionality modules for the PWS suite (i.e. PWS II) in order to satisfy its current clients' changing and increasing demand toward the current PWS. Therefore, its growth is mainly through their continued internal development combined with a focus on Company ABC's client base.

5.2.3 Competitive Stance

Group X utilizes a differentiation strategy that can build a defensible position to cope with the industry competitive forces (Porter, 1980). If achieved, this strategy enables Group X to earn above-average returns in the EPM industry (Porter, 1980). Group X follows a differentiation strategy in a number of ways. Primarily, Group X differentiates itself based on its brand name and the unique story of their transformation into a high performance organization by using their own EPM product – PWS. In particular, its parent corporation's trustworthy brand enhances the value proposition of the new offering, adds credibility and visibility to the new product, and communicates efficiencies. Flowing from this, Group X has sought to do the same for their clients by offering them high quality, high performance staff to do their work. Additionally, in an effort to maximize differentiable value to the customer, Group X tailors their services specifically to the needs of each customer rather than offering customers the more common "one-size-fits-all" solution. Their next differentiator is their ability to deploy their e-HR systems quickly which stems from Group X's access to Company ABC's cutting-edge and well-serviced technological backbone (including web servers, database architecture and network connectivity). This quick
implementation capability allows their customers to increase their workforce performance in short order. This creates the potential for them to maximize their margins.

5.2.4 Strategic Value Chain Activities

As we begin this discussion, we find it necessary to reintroduce Table 4-8 here as a handy point of reference (Table 5-1). Clearly, the key links in Group X’s value chain are Marketing & Sales and Services. However, the key value chain activities, defined by their ability to either reduce costs or increase demand, are a subset of the strengths listed below.

Table 5-1: Group X’s Strengths and Weaknesses: Identifying Potential Sources of Competitive Advantage or Disadvantage

<table>
<thead>
<tr>
<th>STRENGTHS / WEAKNESSES</th>
<th>DESCRIPTION</th>
<th>POTENTIAL SOURCE OF COMPETITIVE ADVANTAGE / DISADVANTAGE</th>
<th>LOCATION ON MODIFIED VALUE CHAIN</th>
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<tbody>
<tr>
<td>S4</td>
<td>Widely Recognized and Respected Brand Name</td>
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</table>

Based on Duncan, Ginter & Swayne’s “Competitive Advantage and Internal Organizational Assessment”

Four out of Group X’s five competitive strengths are potential or existing sources of acknowledged Marketing & Sales resources or capabilities. The fifth competitive strength is an existing Service resource for them.

Currently, the major Marketing & Sales activities that Group X actively uses to increase demand surround their Brand Name (S4) and their Inspiring Story (S5). The strength of their brand and their story are the biggest cause for increase in demand and they achieve this mainly
through the limited marketing efforts of Group X and through word of mouth within the e-HR industry. Therefore, the group currently focuses its marketing and service efforts on just two strengths out of five. We discuss the implications of this later in this chapter. In the next section, we identify Group X’s value chain functional activities and who are responsible for these activities.

Functional Activities that Group X is Responsible for

Group X is solely responsible for seven (7) main activities that flow from their value chain: (1) Research and Development, (2) planning and implementation of trials, (3) implementation of PWS, (4) partnering with client’s HR, (5) taking steps to understand potential client’s business goals, (6) presenting to potential clients, and (7) providing ongoing technical support directly related to PWS.

Activities (2) to (5) and (7) are the only direct profit-makers, however, and they are dependent on each other to qualify as profit-makers. This is because these five activities combined are integral to Group X’s product offering.

Functional Activities that Group X Collaborates on

The only activity that Group X collaborates with external participants on is Special Projects. When Group X undertakes special projects, they often do not have the bandwidth to handle them alone. This often means that they need to collaborate with others who have a stake in the success of the group. To this end, Group X has secured the help of “As Needed Participants” who are external to their group but internal to Company ABC. Some of these participants include project managers, pre-sales personnel, and post-sales personnel.

Special projects by their very nature are profit centres since it is difficult to impossible to convince participants who are not a part of Group X to contribute to a special project if the
bottom line of any part of the business is not being positively affected. Therefore, special projects are typically profit centres.

**Functional Activities that Group X Contracts Out**

Group X “contracts out” two activities from the parent company ABC: (1) Sales and (2) Technical Help Desk services. Although these are not currently internal to the group, they are integral to their value chain activities.

ABC’s sales force does not dedicate its efforts on providing the group with the attention and sales effort it demands. This is mainly because the potential profits from selling Group X’s products are much less than what ABC’s sales force could attain by focusing their efforts on ABC’s products and services. Moreover, since sales is a cost centre and not a profit centre, this is further incentive for the sales personnel to focus on adding as much financial value to the corporation by selling the products that provide the biggest financial gains.

The technical help desk service is not only a cost centre activity, but Group X pays Company ABC for these services. Although Group X gets a 15% discount compared to external clients, this is not a sizeable advantage for the group over their competitors who pay full-price for their technical help desk services. The real advantage here, however, is the fact that Company ABC has a good reputation and a positive record of accomplishment concerning their technical expertise. Therefore, Group X can offer their customers access to one of the industry’s most knowledgeable technical help desk staff in the country. Therefore, the overall advantage of utilizing ABC’s technical help desk is that it provides a differentiation advantage for Group X.

5.2.5 **Summary of the Current Strategy**

Based on our earlier assessments, we find that Group X is currently using a *Differentiation* strategy that defines itself in the following ways: (1) a brand name attached to an
inimitable story that speaks to Group X’s in-house use of PWS which transformed their organization into the success it is today, (2) engaging clients with high quality, high performance staff, (3) customizing their products and services specifically to meet client needs, (4) rapid deployment of their e-HR systems, and (5) access to Company ABC’s cutting-edge and well-serviced technological resources.

Of these differentiators, 1, 3, and 4 currently carry the most weight. Company ABC’s successful story in human resources management (differentiator 1) including those world class HR rewards serves as a very crucial differentiator. Additionally, Group X’s access to Company ABC’s brand name maximizes synergies and creates associations and visibility for the PWS suite.

Differentiator (3) is Group X’s capability to customize their products and services to suit each client and differentiator (4) is Group X’s rapid deployment of e-HR systems. These two differentiators spawn the top three key attributes of Group X’s Differentiation strategy: (a) ease of use (comes from 4), (b) flexibility (comes from 3), and (c) ease of integration with the other management systems (comes from 4). These three attributes are critical for Group X to stand out among the numerous EPM vendors.

5.2.6 Issues of Fit under the Current Strategy

An Assessment of Fit: Current Strategy & the Internal Environment

Successfully implementing the strategy mentioned in the previous section (5.2.5) requires different resources and skills, organizational structure and culture, control procedures, and inventive systems21 (Porter, 1980). In particular, different strategies require different styles of leadership that can formulate different cultures and atmospheres to reinforce the fit between the strategy and the organization. For example, Group X is a product / process-oriented and a marketing-oriented strategic group, and differentiation is facilitated by a culture encouraging

21 Refer to Appendix J for resources and skill requirements of the differentiation strategies.
innovation, individuality, and risk-taking. However, its parent corporation, Company ABC asks for discipline, formalization and incremental improvement. This is a clear lack of fit organizationally, which is a point that we made in the Issues sub-section of Chapter 4's Organizational Structure section. There, we observed that there is a clear difference in organizational structure between Group X and Company ABC - Company ABC's configuration based on Mintzberg's fourteen dimensions is clearly a Divisionalized Structure while that of Group X is a hybrid Simple-Adhocracy Structure. The most notable incompatible dimensions between Company ABC and Group X are: (1) key means of coordination, (2) formalization of behaviour, (3) planning and control systems, and (4) the environment.

**Key Means of Coordination**

For the key means of coordination, Group X uses Mutual Adjustment. This means that there is great flexibility concerning how work is coordinated among Group X's members. Conversely, Company ABC uses Standardization of Outputs. This means that the coordination of work among workers is not flexible. This difference is therefore a red flag for Group X as they consider their future within Company ABC. Concerning this dimension, therefore, there is very little fit between Group X and Company ABC.

**Formalization of Behaviour**

Tied very closely to the key means of coordination for Group X is the level of behaviour formalization. "Behaviour formalization refers to the standardization of work processes by imposition of operating instructions, job descriptions, rules, regulations, and the like" (Mintzberg, 1980, p. 15). Because Group X is a part of Company ABC, they (i.e. Group X) display a high level of formalization of behaviour. This means that this small group is more bureaucratic than organic as noted by Mintzberg,

"Structures that rely on standardization...are generally referred to as bureaucratic [and] those that do not as organic" (Mintzberg, 1980, p. 15).
Moreover, since Group X is a part of Company ABC, the group’s GM is obviously being held accountable for the Group’s actions and level of performance. This means that Group X is really an externally controlled organization. This fact reinforces its need to formalize its behaviour as Mintzberg notes,

"Because the externally controlled organization must be especially careful about its actions...it tends to formalize much of its behaviour" (Mintzberg, 1980, p. 15).

Therefore, this level of bureaucracy brought on by formalization of behaviour is out of place in a group that seeks to be innovative and dynamic.

**Planning and Control Systems**

As mentioned above and shown in Table 4-3, Group X’s *Key Means of Coordination* was *Mutual Adjustment*, which means that they do *not* seek to standardize outputs. Therefore, unlike their parent corporation, they use very little planning and control systems (Mintzberg, 1980). As it is for any division or group leader within a corporation, Company ABC holds the group’s GM accountable for the Group’s actions and level of performance. This means that although there is little planning and control within Group X, their leadership has high levels of planning and control placed on him from above. As the group attains higher levels of success, Company ABC’s interest in the group is likely to increase as well. Logically, when a corporation has an increased interest in an increasingly successful group or division, it would manifest that interest by imposing its own control and planning measures on that group or division. It therefore follows that controlling the group’s planning and control systems would become a priority at that time. This would serve to elevate the group’s internal level of planning and control closer to that of their parent company making the group more bureaucratic and less organic. In this regard, therefore, Group X’s future fit within Company ABC is in question.
The Environment

The environment that Group X currently perceives is one that is dynamic and simple. By definition, Group X is correct in their perception concerning the dynamic nature of their environment because there is great “difficulty in standardizing work, outputs, or skills [to meet the demands of this environment]” (Mintzberg, 1980, p.16). However, utilizing Mintzberg’s definitions, their environment is not simple but complex, as our external analysis supports. They view their environment as simple because Group X’s leadership can easily understand that their current target market is comprised of customers that have similar characteristics and demands. However, for continued and increasing success, Group X is hard-pressed to make it a priority to understand the true nature of their environment. With that in mind, the bureaucracy that exists in their group and the current inability for the group to influence corporate management to increase financial and human resources for the group will hamper their flexibility and their ability to secure the necessary resources to meet the demands of such a complex environment.

An Assessment of Fit: Current Strategy & the External Environment

Positive Indications

The market that Group X currently faces is “dynamic” in nature as “EPM software vendors continue to add more functional depth to the solutions” (Holincheck, 2005). However, while more functionality translates into more value created, it also means more expense to customers. Therefore, large HRIS and ERP vendors’ solutions such as SAP and PeopleSoft are more costly and complex to implement and maintain because of functional completeness. Moreover, customers are inclined not to pay for functionality they may or may not use or benefit from. Therefore, considering its core competencies and capabilities, Group X is right to focus on a differentiation strategy that creates value to their customers and offers the appropriate breadth of integrated solutions and services in a rapid intuitive manner rather than trying to compete with a focus on “completeness of functionality”.
A clear edge that the group has over their competitors is the fact that few of these competitors are able to trial run their own products on a large enough scale to understand the problems of those products. Consequently, these competitors find it hard to factor the necessary “lessons learned” into product development. Equally important to Group X’s edge over the competition is the fact that few of their competitors offer fully-hosted and supported applications at competitive rates since they have to pay higher rents for hosting infrastructures.

Negative Indications

Group X’s current sales strategy does not fit their environment. Their customers demand frontline personnel (typically the salespeople) to know and understand their business. This facilitates the customer having their needs quickly acknowledged and met by the product and/or service provider. However, as mentioned in chapter 4, Group X’s sales force is not devoted to PWS products. Therefore, these Company ABC salespeople do not fully understand the underlying meaning and benefits of the group’s products and the incomplete information they deliver to the potential markets could confuse customers. This not only hinders the development of customer goodwill, but this often means that these salespeople are less inclined to start the sales process with the best strategic person in the organization. Quite often, actually, these salespeople initiate the sales dialog with IT rather than with HR executives or HR managers in the targeted organizations. Sales distribution is also an issue for Group X. Currently, Group X distributes PWS solutions in a way that makes it very hard to lock-in customers and lock out competitors. The worst effect of this sales approach is that at the end of the day, it destroys Group X’s competitive advantages and transforms Group X’s core capabilities into core rigidities.

Organizationally, Group X’s innovative nature favours a flexible environment rather than a bureaucratic one (see Section 4.2). However, as established earlier, Company ABC’s corporate culture is unable to deliver the type of dynamic environment required by Group X. Group X tries to differentiate itself by continuously offering creative new products. However, Company ABC
values formalization, scale economies, and a rigid, hierarchical organizational structure. These features are all counterproductive for Group X as they attempt to pursue an innovative differentiation strategy. Moreover, senior management in Company ABC may misunderstand Group X’s circumstances in the EPM industry and thus may not offer necessary investments or resources to support the best strategy for Group X. As a result, imposes inappropriate corporate policies and targets on the group (Porter, 1980).

5.3 Expected Future Performance under Status Quo

As discussed before, the EPM industry is a fragmented, emerging industry. In the future, competition will be more intense than it currently is. This increase in competitive intensity stems from the market’s current low barriers to entry, its broad market needs, and its characteristically high level of product differentiation (Porter, 1980). As an emerging industry, EPM will inevitably face serious constraints to industry development such as the absence of product and technological standardization, customer confusion, and uncertain product quality (Porter, 1980).

As the industry reaches maturity stage, one should expect profitability within the industry to diminish. In other words, when supply exceeds demand in the EPM industry, competing for a share of shrinking markets will not be sufficient to sustain high performance (Kim and Mauborgne, 2002). This means that the industry could be transformed from “attractive” to “unattractive” very quickly.

Concerning future performance, differentiation strategy has three main risks in conventional markets (Porter, 1985). First, the analyst examines the risk associated with customer price sensitivity. Since larger cost savings typically attract customers, the cost difference between a low-cost strategy and a differentiation strategy would be too large for most customers to bear. Therefore, customers would typically prefer to take the risk of receiving a low quality good at a lower price rather than spend more money on a higher-priced, differentiated...
product. However, this situation would likely happen only when the customers do not value or undervalue the differentiation features.

The second risk is product complication in response to customer demands. As customers become more familiar with the technology and/or products, they will typically ask for very different differentiating factors. This puts a strain on the original focus of the product/service provider. Moreover, if Group X cannot make the requested changes, they risk losing customers to other firms who will make the changes.

Finally, the analyst looks at the risk of imitation. For as the industry reaches maturity, imitation begins to erode differentiation. As differentiation fades, the products will finally become commodities. Therefore, although Group X has currently achieved a healthy and useful level of differentiation, the sustainability of differentiation is limited due to changes in consumers’ preferences and their purchasing behaviour.

Another performance issue concerning Group X’s continued performance under status quo is the inability of participants in highly fragmented market structures to resist seeking dominance in their respective industries. Porter argues, “A company trying to gain a dominant share of a fragmented industry is usually doomed to failure” (1980, p. 210). This is because firms would have to sacrifice product differentiation and operational efficiencies to follow the whims of customers in order to gain market share. The pursuit of being all things to all people could amplify vulnerability to the competitive forces in a fragmented industry. (Porter, 1980).

The timing of Group X’s entry into the EPM market is also an issue. As a later new entrant into the market, Group X has lost the opportunity to be one of the first movers in the EPM industry. An example of a missed opportunity was the chance to develop a “performance management specification” with five of the EPM industry’s major players. Since May 2006, Halogen Software, Hewitt Associates, Kenexa, Lawson Software, and Talent Technology
Corporation have been working with the HR-XML Consortium to develop a next-generation specification for the EPM industry. Missed opportunities such as this exclude Group X from realizing possible synergies with other firms making difficult to pool resources and ideas with the leaders in the industry.

Moving forward, Group X needs to be aware of new entrants and Spin-offs as well as their previously mentioned existing competitors, however. If their focus is only on the identified existing competitors (Halogen Software et al.) and they ignore the new entrants, they would certainly find themselves in a predicament. Metaphorically, this approach would find them “too focused on driving the tiger away from the front door to notice the wolf entering at the back door”. By covering their metaphorical front and back doors, the group will be focusing their strategy on their existing known competitors as well as the less-obvious new entrants.

Next, when we look at Group X’s potential reaction time to changes in the industry, we see that their capability for fast reaction time is currently sub-optimal. The first indication of this comes from our internal analysis (Chapter 4) where we saw that Group X had only limited horizontal decentralization. We analyzed this limited decentralization further and found (more specifically) that their marketing was largely centralized. Not only would a centralized marketing organization have a slow reaction time, but this type of organization would also alienate skilled individuals who are valuable to the firm (Porter, 1980). Finally, Company ABC’s control of key value chain activities such as sales makes it even more difficult for Group X to react to fluctuations and style changes of the industry.

To sum up, we present a Generic Performance Matrix below in Figure 5.1. This figure indicates Group X’s current, expected, and desired future positions considering all combinations of external competitive forces and internal capabilities under status quo. Currently, the EPM industry is in the upper-middle quadrant, which corresponds to high industry attractiveness and
Group X has a *medium* rating for its competitive position. Figure 5.1 shows Group X’s desired position in the Generic Performance Matrix as the left-middle quadrant. This shows that Group X expects industry attractiveness to fall from “High” to “Medium” while their desired competitive position becomes “Strong”. However, based on Group X’s current strategy and competitive analyses, we expect Group X to end up in the “Expected Outcome” box of the matrix. The matrix shows that we expect its competitiveness to worsen (“Weak”) due to the aforementioned problems Group X will encounter.

![Generic Performance Matrix - Group X's Current, Expected, and Desired Future Positions](source: Aidan Vining's Strategy PowerPoint slides, 2006)

### 5.4 Strategic Direction and Intent

Given the current strategy and the problems Group X will encounter in the future, it is reasonable to claim that there are more appropriate strategic alternatives for Group X. In particular, our previous analysis indicates incongruence between Group X’s current strategy and its organizational structure and marketing structure. While formulating future positioning and
competitive strategic alternatives, Group X needs to pursue its functional strategic alternatives at
the same time.

Three strategic alternatives are *Spin-off* and *Strategic Partnerships* and *Maintain Status Quo*. As we’ve already discussed Status Quo in 5.3, we will briefly look at the benefits of the other two alternatives:

(1) Benefits of Spin-off:

i. Potentially solves the culture conflict between Group X and ABC.

ii. Potentially eliminates the detrimental centralized marketing structure.

iii. Potentially improves reaction time to changes in the industry due to greater
    organizational and operational flexibility.

(2) Benefits of Strategic Partnerships:

i. Provides the ability to capitalize on complementary strengths:

   a. By selecting partners who were first movers in the industry, Group X can
      capitalize on those first-mover advantages as a partner to those firms.

   b. By selecting partners who have greater “reach” in the industry than they do
      would make Group X more likely to know their existing and future
      competitors.

ii. Potentially reduces the risk of seeking dominance in the marketplace since the
    very act of entering a partnership has the potential to provide them with a more
    collaborative mindset.
Porter asserts that in general, the competitive structure of fragmented industries asks for tightly managed decentralization, specialization by product type and/or by customer type, and a focused geographic area (Porter, 1980). We present some potential strategic alternatives for expanding the Product-Customer Scope in Table 5-2. These alternatives are inspired by Kim and Mauborgne’s Blue ocean strategy framework and Group X’s own desire to try to find an untested new market space in which to grow.

Table 5-2: Strategic Options Product-Customer Matrix

<table>
<thead>
<tr>
<th>Product</th>
<th>Customer</th>
<th>Existing</th>
<th>New</th>
<th>Notes:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service Medium to large firms</td>
<td>Existing customer segments, new users</td>
<td>New segment users (vertical market-ISO registered organizations)</td>
<td>New geographic area (Asia Pacific areas)</td>
</tr>
<tr>
<td>Existing PWS I</td>
<td>STATUS QUO</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New PWS II</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New PWS III</td>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Notes: The numbers in each cell represent the applicable option(s). Highlighted cells are most likely to pursue. Blacked-out cells indicate non-viable scenarios.

2 = New customers for existing solutions
3 = New solutions for existing customers
4 = New solutions for new customers

Based on: Aidan Vining’s Strategy PowerPoint slides, 2006

Table 5-2 (Strategic Options Product-Customer Matrix) indicates Group X’s strategic positioning alternatives in regard to new products and/or new markets. In reality, Group X has many growth opportunities, including (1) status quo – continue do what they have been doing. (2) Market penetration (refer to Cell “2 “in Table 5-2) – seek to increase sales of the existing PWS suite to current customers, non-users, and users of competitors’ brands in served markets, the Canadian markets. (3) Product development – (Cell “3”) create growth by selling new improved
PWS II solutions in existing markets (for both existing users and non-users in the Canadian markets). (4) Product development and market development – (Cell “4”) focus on both new products and new markets to achieve growth. Develop PWS III for a specific segment in Canada and enter a new international market – the Asia Pacific region, specifically the Chinese or Indian markets.

For each product-customer segment, Group X would compete with its competitors based on the uniqueness of its product. Section 5.5 will summarize its competitive stance under this alternative.

The aforementioned strategic alternatives such as (1) – (4) are all applicable for Group X to grow its business. A further examination for each option reveals that alternative (4), the Blue Ocean Strategy, could offer the opportunity for highly profitable growth. The next chapter will mainly deal with the alternatives derived from alternative (4).

5.5 Summary

This analysis assesses Group X’s current situation and future expected performance under the status quo. The analysis clearly shows the status quo is sub-optimal and is unable to sustain Group X’s competitive advantage in the future. Considering the problems that Group X will likely encounter and Group X’s current characteristics, we then present several new strategic alternative directions to help Group X to successfully grow its business. In the next chapter, we will discuss and analyze the strategic choices open to Group X and offer recommendations based on our evaluation of alternatives.
6 SOLUTION ANALYSIS

6.1 Purpose of this Chapter

This final chapter in our analysis brings all of the previous chapters together. Here, we aim to achieve the following: (1) to provide Group X with a strategy for competing in their market moving forward (i.e. Competitive Positioning), (2) to develop a list of strategic alternatives for Group X and provide an initial analysis of them, (3) to outline the goals provided by Group X and the evaluation criteria we used, (4) to develop future scenarios that Group X should consider and be aware of, (5) to predict and evaluate the alternatives based on the goals provided by Group X, and (6) to provide final recommendations and conclusion.

6.2 A Strategy for Moving Forward: The Blue Ocean is Calling

A Blue Ocean Strategy would help Group X overcome the fragmented and intense competitiveness of the industry by focusing on a particular category of customers while simultaneously entering a new untested market space. In doing so, Group X would avoid the typical “Red Ocean” issues such as costly cutthroat competition in a shrinking industry. This strategy calls for an unconventional competitive approach with an innovative strategic logic that Kim and Mauborgne call “value innovation” (2005). This means Group X will open up new and uncontested market space and concurrently create a leap in value for customers and for itself.

Earlier, we identified ISO9001-registered organizations as the Blue Ocean market Group X should pursue. Targeting this market, therefore, Group X needs to tailor its current PWS solutions to serve this special segment.
Developing a new market in the Asia Pacific region (e.g. China or India) is another feasible growth strategy that we can use to extend the previously mentioned Blue Ocean / PWS III approach. Studies show that this region has the fastest growing market for HR technology products. According to the research firm AMR Research, 2005 expenditures on HR technology increased in the Asia-Pacific region by 22 percent even though North America is the biggest market for HR technology products. This compares to gains in North America and Europe by 7 percent and 20 percent respectively. Moreover, AMR predicts that from 2005 to 2010, revenue from HR technology in the Asia-Pacific market will increase by 18 percent annually. This outshines AMR’s projected revenue increases for Europe (11%) and for North America as well (7%) (Frauenheim, 2006).

To cite China as an example, GDP growth in China is now clocking in at 10.2 percent. IDC forecasts that China will be the largest IT services market in the Asia-Pacific region by 2010, with a 24 percent share of IT spending in the region (Hansen, 2006). In addition, China is one of the largest markets that subscribe to ISO series management standards worldwide. Almost all countries worldwide have begun to view China as an ideal manufacturing centre. Clients from various countries request Chinese manufacturers and/or service providers to be certified by all various quality (i.e. ISO9000) and environmental (i.e. ISO14001) management standards and to be registered with OHSAS 18001 and OHSAS A8000. For some understandable reasons, many globally-credible clients require Chinese manufacturers to register to certain standards such as SA8000 and OHSAS18001.

Second, as one of the biggest manufacturing and assembling centres in the world, China has the greatest number of potential PWS clients in the manufacturing industry. One of the obvious features of most manufacturers is that these companies must successfully manage a great

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22 Occupational Health and Safety Management System.
23 ISO26000, Social Accountability, a standard to promote human rights for workers around the world.
quantity of employees, often in several different locations. Although the standardization of production processes helps to regulate the performance of workers directly involved in manufacturing, a large number of indirect, non-manufacturing staff, including office administrators, technicians, group leaders, supervisors, and Quality Control (QC)/Quality Assurance (QA) personnel demand measures that are more universally effective. An e-HR tool centred on the development of high performing staff across the organization meets this demand.

Finally, the level of HR management is lower in China than it is in North America and other developed countries. Chinese HR has always focused almost exclusively on personnel functions without having a systematic approach for the development of employee skills, performance monitoring, and motivation. While strategic HR and EPM software industries are growing rapidly in the Western world, most Chinese organizations have only recently become aware of its importance. Although Oracle / Oracle PeopleSoft and SAP are the chief players in the Chinese EPM market right now, market feedback shows that Chinese customers are dissatisfied with the solutions supplied by these vendors. Furthermore, the growing necessity to pursue ISO standard registrations forces firms to take their HR functions seriously. Overall, therefore, there is huge growth potential for EPM solutions in China.

So far, we have depicted Group X’s business scope, market segments, and geographic areas for its strategic alternatives. According to Hambrick and Fredrickson, a well-planned strategy should also answer the questions such as how to get there (i.e. Internal development, joint ventures), how to win (differentiators), and how to obtain returns (value chain) (2001). Using Roberts and Berry’s entry-strategy selection framework (Appendix K) to consider all aforementioned factors, we list five alternatives in Table 6-1 below. This table is based on the five alternatives that Group X’s GM has indicated that he is interested in pursuing as potential expansion vehicles for Group X.

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Table 6-1: Summary of Strategic Alternatives

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<th>Major elements of Strategy</th>
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Notes: Do.=Domestic market, Int’l=International

6.3 Initial Analysis of Group X’s Strategic Alternatives

There are two major alternatives open to Group X: either remain a part of Company ABC or exit Company ABC. For the “Remain in ABC” alternative, there are two options and for the “Exit ABC” alternative, there are three options for a total of five strategic alternatives that Group X is open to:

1. Status Quo i.e., remain within ABC and maintain their current software (PWS I & II) with continued focus on domestic customers.

2. Remain within ABC and develop a new generation of their software (PWS III) for domestic and international customers.

3. Spin-off their business operations outside of ABC and maintain their current software (PWS I & II) with focus on domestic customers.

4. Spin-off their business operations outside of ABC and develop a new generation of their software (PWS III) for domestic and international customers.

We discuss the logic behind these alternatives and the risks they present in the following sections.

6.3.1  Remain a Part of Company ABC

Maintain Status Quo

This strategic alternative involves three major things: (1) staying within Company ABC, (2) maintaining their current software (PWS I & II), and (3) keeping focus on domestic customers.

Overview of this Strategic Alternative

In order to maintain status quo, Group X will continue to sell existing PWS I to its current segment, that is, medium to large firms in service sector in Canada. Moreover, Group X will try to penetrate Company ABC's clientele base to increase sales of existing PWS I solutions. At the same time, Group X may make incremental improvements to what it currently does. For example, it may bring out the improved PWS II product to attract current customers, non-users, and competitor's users. Other approaches that Group X might pursue at the same time could include conducting promotional campaigns, cutting prices, or setting up new distribution channels. For status quo, Group X would not be in a position to make any radical new product innovations or enter new markets.

Initial Evaluation of Strategic Alternative: Benefits and Risks

The advantages of staying within Company ABC flow directly from our internal analysis in chapter 4. As established in chapter 4, the major sources of competitive advantage for Group X are: (1) Brand name, (2) Company ABC's compelling story, (3) the ability to quickly and easily demonstrate and confirm product's ease of use, and finally (4) the ability to quickly and easily implement the product.
The fact that Group X maintains their current software as opposed to developing a new generation of software and keeps focus on domestic customers instead of reaching out to international customers as well are purely because of a lack of funds to make these things happen. Group X leadership does not want merely to maintain these two aspects of Status Quo but they are currently doing so due to financial constraints. We look at the risks related to each of the three aspects of Status Quo below.

In staying with Company ABC, the first risk is that Group X may never have the kind of influence necessary to make PWS a priority for Company ABC. Based on the experience of the authors, it is expected that such isolated groups within large corporations would have great difficulty in maximizing their potential.

This example exposes another risk for Group X if they stay within Company ABC i.e., the retention of talent. Group X’s GM hired the best he could find for his group – from both within ABC and externally as well. Currently, the group’s morale is high and all involved are optimistic that they will achieve their goals. However, as the real-life example shows, this would not last if Company ABC did not provide Group X with the means to grow their organization. Sticking with this strategy, Group X runs the risk that they would lose the very employees they worked so hard to obtain in the first place.

The second aspect of maintaining status quo, maintaining their current software, has its own risks associated with it. Current customers of Group X are using PWS. These are the first and second generations of PWS software respectively. However, customers are inevitably more sophisticated over time and competitors are more likely to entice them with more features that add value to their changing organizations. The risk here, therefore, is that sooner than later, customers are highly likely to perceive these earlier versions as limited, underdeveloped, and ultimately undesirable.
The third aspect of maintaining status quo, keeping focus on domestic customers also has its risks associated with it. While the focus on HRM in the Western developed nations has been increasing, HRM focus in the Eastern developed nations and in underdeveloped nations worldwide is relatively low. However, because of globalization and a steady increase in outsourcing, these previous outsiders to HRM are now providing an upsurge in demand for HR professionals, HR services and e-HR products.

An example of an untapped foreign market is China in the manufacturing sector. We mentioned the concept of a “Blue Ocean” market earlier in the paper and this sector provides Group X with just that kind of market. High performance workers in this sector are crucial to providing high productivity and high quality outputs for their respective companies. Group X is clearly in a position to be a first mover in these two major manufacturing-focused countries. The risk here, therefore, is that Group X might miss the proverbial boat if it does not explore the possible opportunities in these foreign markets.

**Develop PWS III within ABC: International and Domestic Customers**

This strategic alternative involves three major things: (1) staying within Company ABC, (2) developing a new generation of PWS software (PWS III), and (3) pursuing both domestic and international customers.

**Overview of this Strategic Alternative**

New PWS III solutions will target one new segment – ISO-Registered firms (as identified in the Blue Ocean strategy discussion in section 3.6). More specifically, our suggested focus is on the ISO-registered organizations in Canada and the Asia Pacific region. The means of attaining a presence in the Asia Pacific region will be through joint ventures or some other applicable alliance approach. For the domestic market, Group X will choose the internal development approach.
Initial Evaluation of Strategic Alternative: Benefits and Risks

We already discussed the four advantages of staying within Company ABC and the issues and risks related to this aspect in the previous section. Since they are the same for this strategic alternative, the following section will focus on the benefits and risks associated with the other two aspects of this strategic alternative.

The benefit of developing the next generation of software (PWS III) is two-fold. First, the current customers will have features they previously did not have access to with the earlier versions. Additionally, Group X's new product may yet win them more customers due to its broader appeal. These are great pluses for the isolated case of "developing the next generation of software". However, we need to consider the issues Group X will face as they "develop the next generation of software within Company ABC" and we do this in the following paragraphs.

The main issue with developing the next generation of software (PWS III) within ABC is creating a link that gets Group X from status quo to developing a new version of software. We already established that Company ABC is not currently investing a lot of money into Group X and this is the missing link for the group. Without the necessary financial support to develop the product, achieving PWS III and beyond is just a pipe dream. The risk of planning for such a future, therefore, is Group X's certain waste of time and energy combined with the eventual broken morale brought on by the loss of developmental momentum for the group and their product.

The second aspect of this strategic alternative that we consider here for the first time is the pursuit of both domestic and international customers. If Group X is able to capture domestic and international markets, the advantages are clear – more customers means potentially more revenues which means potentially more Group X development. The biggest advantage would be the cyclical nature of this. As Group X increases their development, they increase their ability to
capture a larger audience. This means more revenues and thus more development and so on. However, as we discussed previously, this isolated scenario ignores the fact that it is being proposed in-house. We discuss the implications of this below.

If Group X were to pursue both domestic and international customers while still within Company ABC, they would face the difficulty of having enough seed capital to fund such a venture. The fact that they are at the bottom of Company ABC's list of "programs to fund" means that earnestly pursuing these customers would be as much a pipe dream as developing the next generation of software in-house. The real issue, however, is that Group X will do best to pursue both aspects simultaneously i.e., develop PWS III and seek out both domestic and international customers. This would clearly be very costly. Therefore, the risk here is two fold. First, Group X would risk setting off to achieve these lofty goals without enough financial backing to realize them. Because of this, they would risk breaking promises to their customers as they "aim high" but deliver "low and slow" which is sure to damage their reputation.

6.3.2 Exit Company ABC: Spin-off

The Anatomy of a Spin-off

A typical catalyst for "spinning-off" or "spinning-out" is when the group or division concerned is focused on products or services that the parent company does not regard as fitting into its core business.\(^{26}\) Group X fits this description to a 'T' and therefore, this is the foundation of our need to consider "Spin-off" as a viable option for them.

Before going deeper into the discussion of Spin-offs, however, we first need to acknowledge the existence of an alternative that is related to Spin-offs and is often confused with them: Spin-outs.

\(^{26}\) Path To Investing Definitions page: www.pathtoinvesting.org/dictionary/words_s.htm
A Spin-out is "a new firm [that was started] without any outside influence [and] is based on experiences or knowledge of specific technologies from previous employment" (Koster, 2004, p. 21). Moreover, "at start-up, Spin-outs hardly differ from individual Start-ups" (Koster, 2004 p. 1). The only major difference between Spin-outs and regular Start-ups is the fact that regular Start-ups are not based on experiences or knowledge from previous employment (Koster, 2004). It is worth noting here too that the definition of a Spin-off is "a start-up that has the support of its parent company" (Koster, 2004, p. 17). Clearly therefore, both Spin-offs and Spin-outs are types of Start-ups.

This leads us to answer the question, "Why propose the Spin-off alternative instead of the Spin-out alternative?" The reason flows from Dr. Koster’s empirical studies of American entrepreneurs (2004). These studies conclude that Spin-offs are "expected to perform better than other start-ups that lack the resource base spin-offs inherited from their mother companies" (Koster, 2004, p. 1). Figure 6.1 shows the resource disparity between Spin-offs and Spin-outs. From this figure, we see that the Spin-off is the only one that has both parental support and the permission to share resources with the parent firm.
From Figure 6.1, we see that regular Start-ups are typically self-reliant, Spin-outs are allowed to share resources with their parent company but have no parental backing, and Spin-offs receive parental support and are allowed to share resources with the parent company.

A great Spin-off example is the relationship between Agilent Technologies and parent company Hewlett-Packard (HP). Through the spin-off process, Agilent was able to establish itself quickly through its close association with HP. Although Agilent became an independent entity just six months after being spun-off, the exemplary culture and solid reputation that HP is known for still echoes indefinitely for Agilent and anything it produces.

Because of this jump-start advantage that Spin-offs have over other types of ventures external to the parent company, we see that Spin-offs are expected to outperform Spin-outs and regular Start-ups (Koster, 2004). Therefore, this is why we choose to explore the Spin-off alternative over the others. We discuss the advantages and risks involved with Group X spinning-off in the following two sub-sections.
Spin-off: Domestic Customer Focus and PWS I & II

This strategic alternative involves the following three things: (1) spinning off as a separate entity from Company ABC, (2) maintaining their current software (PWS I & II), and (3) keeping focus on domestic customers. This option is very much like the status quo option except that the operations would take place outside of Company ABC. We look at these aspects of this strategic alternative below.

Overview of this Strategic Alternative

The Anatomy of a Spin-off section above gives a detailed overview of the mechanics of this strategic alternative.

Initial Evaluation of Strategic Alternative: Benefits and Risks

The first aspect of this strategic alternative—spinning off as a separate entity from ABC—has advantages for both Group X and for Company ABC as well. For Group X, an advantage of spinning off from Company ABC is the ability, for a limited time, to capitalize on the reputation of ABC without being a part of the bureaucracy. The Spin-off alternative offers Group X the obvious advantages of ABC’s financial support and the ability for Group X to continue developing their product, PWS, with Company ABC’s reputation attached. Moreover, as a spin-off, Group X would have access to Company ABC’s knowledge-base which would exist within the products developed to date and also in minds of the employees that helped develop these products.

Concerning advantages for Company ABC, we see that “a new firm can serve as a breeding ground for new ideas and innovations that are hard to establish within the existing firm” (Koster, 2004, p. 3). Therefore, if Company ABC sees the potential for this group and their products, they may consider spinning-off Group X for this purpose. Moreover, Company ABC should also realize that most spun-off entities can “evolve into a solid business partner that provides services to the mother company based on the specific knowledge of this company”
(Koster, 2004, p. 4). So, by spinning-off Group X, ABC would not be losing a division but would be gaining a business partner that would have more freedom to be exceptional outside rather than inside Company ABC.

Addressing all three aspects of this alternative at once brings one major risk into focus. As with the Status Quo alternative, we see that if Group X spins-off and then merely maintains current customers and current products (PWS I & II), they run the same risk of missing the opportunity to gain a first mover advantage in this “Blue Ocean” opportunity. This risk can result in loss of revenue for Group X and thus may limit their success in the long run.

**Spin-off: Domestic & International Customer Focus and PWS III**

This strategic alternative involves three major things: (1) spinning off as a separate entity from Company ABC, (2) developing a new generation of PWS software (PWS III), and (3) pursuing both domestic and international customers. We look at these aspects of this strategic alternative below.

**Overview of this Strategic Alternative**

New PWS III solutions will target one new segment: ISO standard registered organizations in Canada and the Asia Pacific region. The means of attaining a presence in the Asia Pacific region will be through joint ventures or some other applicable alliance approach. For the domestic market, Group X will choose the internal development approach.

**Initial Evaluation of Strategic Alternative: Benefits and Risks**

Developing the next generation of software (PWS III) outside of ABC as a spun-off version of Group X gives the group more flexibility to create and grow compared with their inability to do so within ABC. Therefore, the advantages of spinning-off described in the previous section stand firm for this alternative as well. However, with a focus on a Blue Ocean
market and on new software as well, this alternative has the added advantage of providing Group X with the potential to capture greater revenues than their current situation allows.

Given the lack of organizational fit and bureaucratic immobility under the context of Company ABC, spinning-off will offer Group X a reconfigured value chain with which Group X could tightly control its marketing function and decentralize its marketing organization. In addition, spinning-off would also cultivate an innovative culture and environment within Group X.

The new product costs less to develop in the Canadian market than in Asia Pacific areas. For the domestic segment, the existing PWS I only requires a few minor changes against corresponding requirements in ISO9004 and/or ISO/TS169494 standards. However, for the Asia Pacific segment, in addition to this task, and language translation, the new solution must meet country-specific legal and cultural requirements. The vast HR cultural differences between North America and China may be the source of the biggest challenges Group X could face in this endeavour.

6.3.3 Exit Company ABC: Third Party Acquisition

Third Party Acquisition

This strategic alternative involves three major things: (1) selling Group X to a third party, (2) maintaining their current software (PWS I & II), and (3) keeping focus on domestic customers. We look at these aspects of this strategic alternative below.

Overview of this Strategic Alternative

If Group X’s shareholders choose to sell Group X to a third party, there are three types of candidates that they would consider: (1) a strong EPM vendor such as Softscape or SuccessFactors, (2) an outsourced service provider, or (3) a System Integrator such as HRonline.
Initial Evaluation of Strategic Alternative: Benefits and Risks

With Company ABC’s brand name and Group X’s current customer base, Group X may be an attractive acquisition target for these potential buyers. Additionally, acquisitions and mergers are prevalent in the EPM industry these days. Some vendors such as SilkRoad Technology treat acquisitions as part of their growth strategy i.e., they expand their business and product functionality mainly by acquiring small to medium-sized EPM vendors. Another reason why this alternative is a strong possibility is the fact that PWS possesses unique functionalities such as Recognition and Mentoring that most other suites do not have. The uniqueness of these functionalities makes PWS potentially more attractive to buyers.

The risks involved in implementing this alternative revolve around the ability or inability of Group X to be assimilated into their new parent company. As it is very common for acquisitions to fall apart due to culture clashes and the new parent company’s inability to fully understand the acquired company’s business, this is a considerable risk for Group X should it decide upon this alternative.

6.4 Assessment of Group X’s Competitive Stance Strategy

So far, it is clear that Group X is active in the EPM arena and is planning to expand its product range and commit to international expansion. However, there is uncertainty concerning Group X’s ability to achieve its intended expansion effectively and efficiently. Before selecting a superior alternative expansion strategy, one has to assess Group X’s competitive stance strategy and the logic behind this strategy.

We have established earlier that Group X employs a differentiation strategy but moving forward, Group X should be aware that having the best combination of differentiators is what generates the most competitive advantage (Hambrick and Fredrickson, 1983). At this point, this is the way that Group X should position itself in the EPM marketplace. This “optimal
combination of differentiators" strategy is similar to what Honda uses in the automobile industry. Clearly, there are cars that are superior to Hondas, and in the same market, there are cars that are less expensive cars than Hondas as well. However, no one else in the automobile industry is able to offer customers the same quality/price advantages as Honda (Hambrick and Fredrickson, 1983).

So, as we saw with the five differentiators we identified in the internal analysis, Group X is only using two out of five of these to sell PWS i.e., brand name and their inspiring story only. Group X now needs to place more focus on the other three since these are also very strong differentiators for Group X. The first of these three is Group X’s near-flawless customer satisfaction. This is a very important selling point simply because excellent customer support and customer service for tech products is usually a solid reason for customers to stay. Moreover, poor customer support and service is usually a solid reason for customer churn. Therefore, by continuing to provide superior customer support and services, but this time integrating this differentiator into the sales pitch, Group X could pick up new customers from e-HR providers that are less customer-centric.

6.5 Scenario Analysis

As mentioned before in this paper, the Web-based EPM industry is an emerging industry with high levels of technological and market uncertainty. To quote Porter, “The essential characteristic of an emerging industry from the viewpoint of formulating strategy is there are no rules of the game” (1980, pp. 215-216). He adds, “[the] absence of rules is both a risk and a source of opportunity [that] must be managed” (1980). Scenario analysis is an effective tool to cope with the future’s uncertainty. We will analyze three scenarios for Group X below.
6.5.1 Best-Case Scenario

The best-case scenario for Group X would be for them to follow the logic of value innovation and escape the Red Ocean of vicious competition by creating uncontested market space, i.e., the Blue Ocean (Kim & Mauborgne, 2005). Specifically, as a value innovator, Group X would not focus on beating the competition and fighting for incremental market share. Instead, Group X would offer a new, simplified PWS suite that would incorporate an innovative feature that fulfils ISO certification requirements. Theoretically, the new suite would slash customer configuration time and maximize the price-performance ratio. In doing so, Group X would create a value curve that is superior to their competition with translates to the realization of a Blue Ocean strategy. Ideally, Group X would generate returns that far outpaced the industry, generated considerable buzz, and gained customer loyalty even before competitors were able to imitate the new PWS suite (Kim & Mauborgne, 2005).

Whether this scenario will occur or not depends on how the developers tailor the new PWS suite and how well Group X's marketing is able to generate demand for this suite as well. In particular, how the Asian market reacts to the new suite is highly uncertain. However, given the current increasing trend of ISO certifications and the number of still-underserved markets in both Canada and Asia, we believe that this scenario has more than a 50-50 percent chance of occurring.

6.5.2 Worst-Case Scenario

The worst-case scenario for Group X would be if potential customers preferred to develop their EPM system in-house. The rivalry among existing competitors escalates as vendors compete in a shrinking market. As the EPM industry matures and ultimately begins to decline, shrinking profit margins and an inevitable price war renders the industry unattractive. Customers exert their bargaining power by posing a threat of "backward integration" through in-house
development. Since these customers tend to develop the solution by themselves, they need to hire many highly skilled technicians or developers. Therefore, the bargaining power of highly competent technical labourers (key suppliers of the EPM industry) would rise. In this scenario, Group X not only would have lost money on R&D and new marketing exploration, but it might also lose its current competitive position.

This scenario is unlikely to occur in the EPM industry. The trend of purchasing off-the-shelf, best-of-breed software has dominated since the early 1990s, and there is no indication of a change ahead. The trend continues as increasing numbers of organizations realize that their IT investment strategy should reinforce their core competency and add value to their customers. If better software is already available for everyone, it is unreasonable and costly for an organization to allocate its limited resources and valuable time to develop software that will not bring any uniqueness to the organization. In addition, the industry analysts all have given positive comments regarding the future of this industry.

6.5.3 The Most-Likely Scenario

Based on industry and segment analysis, the most-likely scenario for Group X would be the new PWS suite's gradual increase in market acceptance in reaction to its unique features and value. We do not expect that potential customers would want to spend their money on developing in-house applications comparative to PWS since doing so would not typically support their core competencies. Moreover, if they actually decided to develop their own comparable PWS software, they would have difficulty in developing HR and training software capable of fulfilling ISO certification requirements since the standard requirements for this application are quite complicated. From our research, we find that almost all organizations pursuing ISO certifications need a separate consulting service to help them understand the standard itself. Therefore, because of the richness of features in the new PWS suite, customers' switching costs
will be even higher than that of the previous suite. Since this is the most likely scenario, the alternative evaluation will surround this scenario.

According to Kim and Mauborgne’s research, out of 108 growing companies, 86 percent achieved expansion of their business via incremental improvements within the Red Ocean of existing market space (2005). They accounted for 62 percent of total revenue and 39 percent of total profits. The remaining 14 percent of the companies pursued the creation of blue oceans. However, they generated 38 percent of total revenue and 61 percent of total profits. Based on this research, it is reasonable to state that blue ocean strategy could generate returns that exceed the industry average. This ability is at the heart of what makes blue ocean strategy a valuable strategic option for businesses.

In order to “activate” this scenario, Group X has to get its strategic sequence in the correct order and overcome four organizational hurdles: (1) cognitive hurdle\(^\text{27}\), (2) resource hurdle\(^\text{28}\), (3) political hurdle\(^\text{29}\), and (4) motivational hurdle\(^\text{30}\) (Kim and Mauborgne, 2005, pp. 118-150). We detail Kim and Mauborgne’s Blue Ocean Sequence in Appendix L.

We caution, however, that with this new strategy, things are likely to get worse before they get better (see Figure 6.2). This illustration could be useful in educating Group X employees or even senior management in Company ABC.

\(^{27}\) An organization wedded to the status quo, waking employees up to the need for a strategic shift.
\(^{28}\) Limited resources.
\(^{29}\) Opposition from powerful vested interests.
\(^{30}\) Unmotivated staff.
6.6 Evaluation of Alternatives

6.6.1 Goals and Evaluation Criteria

This section takes the five strategic alternatives developed earlier and further analyzes them with regards to more specific criteria. Vining and Meredith develop an ideal Metachoice framework for strategists to define evaluation methods and criteria for strategic alternatives (2000). In this paper, Vining and Meredith posit that the evaluation criteria should originate from Group X’s goals. We identified Group X’s long-term and short-term goals and discussed them with Group X’s general manager. Group X’s goals and definitions are as follows:

1. **Short-term profitability (Profit maximization):** Revenues and Gross Margin achieve or exceed the annual target.

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31 **Metachoice:** An auxiliary choice that supports the focal or main choice to be made.
2. **Long-term profitability (Profit maximization):** Revenues and Gross Margin achieve or exceed their long-term target specified in their business plan over a period of 2-5 years.


4. **Brand Image Development (long-term and short-term):** Enhance brand value (i.e. customers seek out the products even if Group X does not market them).

5. **Innovative fulfilment (long-term and short-term):** Improve the climate and culture for innovation and continuously carry out product innovation.

Table 6-2 illustrates each of Group X’s goals and the relative weight assigned to each of them. We define each weight according to the goal’s importance in long-term and short-term situations. Vining and Meredith assert that two factors define Metachoice (2000). They are (1) goal breadth and (2) willingness to monetize the goal’s impact. Based on Vining and Meredith’ (2002) framework, the Multi-Goal Analysis approach is appropriate for evaluating Group X’s strategic alternatives.

Table 6-2: Group X’ Weighted Goals

<table>
<thead>
<tr>
<th>Goals</th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max Profitability</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Brand Image Development</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Based on Vining and Meredith (2000)

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32 Multiple goals are presented but not all impacts are monetized.
6.6.2 Analysis of the Strategic Alternatives

This section uses the four goals listed in Table 6-2 as a framework for analyzing the strategic alternatives that we developed earlier in this chapter. More specifically, each subsection looks at the impact of each alternative on the four goals.

Analysis – Maintain Status Quo

Profitability

In the status quo option, Group X would generate revenues and profits via its existing customer base and capitalizing on Company ABC’s customer base. In the short run, expected profits from this revenue source are “medium to low” while in the long-run, expected profits are “low”. As discussed in Section 5.2.6, Group X’s current strategy does not fit with their organizational arrangement very well. Disconnection or isolation between Group X and sales and marketing functions could hinder sales and profitability. In addition, since the target market for this alternative is Company ABC’s customer base, Group X would have to offer these existing customers some form of an incentive such as discounted prices in order to maintain a good relationship with them and reward these customers for this “second purchase” of Company ABC’s products. In addition, industry profits are expected to decline as the EPM industry moves into the mature stage.

Customer Satisfaction

Customer satisfaction and loyalty are high in both short-term and long-term circumstances. In general, customers who are satisfied with the products and services provided by Company ABC are most likely to become Group X’s customers. As Company ABC has stable relationships with many customers, this situation is a positive one for Group X to achieve high customer satisfaction.
Innovation

Innovation goals are low in both short-term and long-term instances. In Chapter 5, we presented how the environment and culture within the context of Company ABC impedes innovation development within Group X. In particular, as a start-up business unit in Company ABC, Group X cannot demonstrate any impressive short-term financial returns. As a result, top management is most likely to underestimate Group X's potential and misunderstand their position. Therefore, ABC will continue to be hesitant to reinvest money towards new and innovative product development projects for Group X. This is sure to end in ultimate failure for Group X.

Brand Image Development

The brand image development goal is ranked low in both the short-term and long-term. Within Company ABC, Group X does not need to develop its own brand and image. As we established earlier, Company ABC’s brand name is highly recognized and well-respected. Naturally, therefore, a separate Group X brand would most likely go unnoticed by most customers. Most important to this discussion on brand image development, however, is the fact that not having to undertake this task is actually a good thing for Group X. It is a good thing since they can indefinitely continue winning new clients who value ABC’s solid brand image without having to spend extra on developing their own brand image.

Analysis – Develop PWS III within ABC: International and Domestic Customers

In this alternative, as a business unit of Company ABC, Group X may offer new PWS III solutions to new customers, such as the organizations registration to ISO standards in Canada and in the Asia Pacific region (i.e. China, India). Moreover, Group X may expand its Canadian market via internal development but enter the Asia Pacific market via joint ventures or the other alliance/partnership approaches.
**Profitability**

For this alternative, profitability is expected to be medium in the short-term and medium/low in the long-term. The reason why the long-term profitability goal is medium/low is because of the lack of organizational fit between Group X and Company ABC. Another reason for this low expectation of profitability performance is the issue Group X has with the lack of focused sales and marketing as a part of ABC. We expect that this focus on new markets and on a new product will provide Group X with more profitability than if they maintained status quo the latter of which we expect to have low profitability.

**Customer Satisfaction**

In the short-run we expect customer satisfaction to be low/medium and in the long-run, we expect customer satisfaction to be high. In general, Group X’s existing access to ABC’s experienced technical service staff gives them a great advantage over other providers. Additionally, Group X gives customers direct access to their associates and developers which serves to enhance customer service even more. However, since part of this alternative’s focus is international markets including Asia Pacific, Group X would have to employ bi-lingual customer service representatives to handle these calls. Moreover, since this alternative has Group X pursuing a larger customer base, they would have to increase the capacity of their existing customer service centre as well. This means that they will move away from the intimate customer service infrastructure that their customers are currently accustomed to. Their need to expand would involve exposing existing customers change – and changes almost always take a while to be accepted by customers. Just as Dell had customer service growing pains related to these issues, we expect this to also affect Group X in the short term resulting in a low/medium customer satisfaction rating initially (CNET News, 2004).

As Group X grows, however, we expect their customer satisfaction to improve as this branch of their organization gets over the learning curve. In the long-term, this alternative could
result in high customer satisfaction, however. We expect high customer satisfaction in the long-term because of the high value-added products and services developed under Blue Ocean strategy. Additionally, as time goes on, we expect the number of new customers to far outweigh their initial customers. This is important because as time goes on, more and more new customers would know very little about the original customer service format. Therefore, the percentage of unhappy customers that can’t adjust to the change in customer service will shrink over time. This increases the potential for high customer satisfaction in the long run.

**Innovation**

The analyst ranks the innovation goal as low in the long-term and medium/low for the short-term. The long-term goal is low for the same reason as presented in the third paragraph in the *Maintain Status Quo* section above. In the short-term, the pursuit of Blue Ocean Strategy itself is innovative and unique. This is enough to justify why the analyst gives a medium/low ranking for the short-term goal.

**Brand Image Development**

This alternative provides some opportunities for Group X to develop its image via pursuit of Blue Ocean strategy. However, in the long run, and for the same reasons illustrated in the forth paragraph in Section *Maintain Status Quo* section, the brand development goal will be low.

**Analysis – Spin-off: Domestic Customer Focus and PWS I & II**

**Profitability**

In the spin-off context, the profit goal is medium/high in the short run but medium in the long-run. The spin-off alternative offers an improved sales and marketing structure, as well as enhanced coordination among functions in R&D, product development, and marketing. Because of the focused resources that exist in a spin-off situation, Group X could grow faster in a spin-off
situation in the short-term than it could within Company ABC. However, as the industry moves into the maturity stage of the life cycle, profitability of the industry will diminish for all competitors.

**Customer Satisfaction**

The customer satisfaction goal is high in the long-term, but medium/high for the short-term. Company ABC’s brand has enhanced Group X’s value proposition, credibility, visibility and communication efficiencies. Although we expect most current Group X customers to be positive about their spin-off from Company ABC, some customers may not be comfortable with this change. This is why we expect customer satisfaction to be lower in the short-run than in the long-run. In the long-run, we expect that Group X would demonstrate its capability as a solid EPM provider which would lead to an increase in customer satisfaction as they win-over the unsure customers.

**Innovation**

Spin-off from Company ABC offers the right environment for innovation. To quote Mintzberg, “…so much innovation comes not from the giant mass producers but from small entrepreneurial companies” (1980, p.106). At this point, we rank innovation *high* for both long-term and short-term circumstances.

**Brand Image Development**

We expect brand image development to be medium in the long-run and low/medium in the short-run. Just after spin-off, Group X will surely capitalize on its affiliation with Company ABC’s strong brand image. Therefore, the group’s initial brand image development efforts – separate from ABC’s image – need not be too great. Moreover, building a separate brand is typically difficult and costly in the short run. Therefore, although the spin-off alternative offers
ideal conditions for Group X to develop a separate brand or identity from Company ABC, Group X would be wise to have this as a long-term goal. Their initial focus after spinning-off should be to engage in strong marketing and sales efforts to get their name in a positive light out in the marketplace. The source of that light will initially be Company ABC’s reputation and brand image.

In the long-run, however, Group X will be able to create its own image that can potentially represent new and different offerings. The great positive here is that the group could use their affiliation with their parent company for a long time. This is very similar to what Agilent did with its parent company, Hewlett-Packard. However, Agilent has had to work harder in the long-term to maintain a stellar brand image since the HP Brand affiliation is now residual rather than actual; i.e., initially, the HP logo appeared on the Agilent logos and advertising material but seven months later, as planned, HP “let the baby walk on its own”.

In most cases, Spin-offs do not have to work as hard as regular start-ups on brand imaging since the residual affiliation often carries on indefinitely. Even today, six years after they spun off from HP, the market still identifies Agilent as a highly successful HP offshoot. We believe that Group X would follow a similar path in benefiting from the residual branding of ABC just as Agilent did with HP. For this reason therefore, we expect Group X’s focus on Brand Image Development to be medium in the long-run.

When the EPM industry eventually becomes mature and starts declining, Group X may find that it needs to focus more on sustaining the business and less on brand image development at that time. In a declining industry, brand image development is not a typical point of focus.

Analysis – Spin-off: Domestic & International Customer Focus and PWS III

This alternative offers new PWS III solutions to new customers in Canada and Asia Pacific via internal development and joint ventures respectively. Clearly, this alternative is very similar to the one we presented in the second sub-section of this section— the “Develop PWS III
within ABC: International & Domestic Customers” alternative. However, the analysis of each of the two alternatives differs considerably. This is because the previous alternative dealt with issues related to Group X remaining as part of ABC while this alternative deals with the issues related to Group X spinning-off from Company ABC and becoming a stand-alone business firm. We present our analysis of the latter alternative in the context of Group X’s goals below.

Profitability

This alternative provides the greatest opportunity for profitability and growth and the greatest long-term sustainability for Group X. In short, this is due to a combination of things: (1) their adoption of a Blue Ocean strategy, (2) their organizational and operational freedom as a spin-off, and (3) the parental support that being a spin-off offers.

Their adoption of a Blue Ocean strategy contributes to maximizing their potential for long-term profitability because this strategy serves to increase their current customer base by serving new, untapped markets and thus new customers as well. However, since they would be developing new solutions at the off-set i.e. PWS III, this development will reduce profit to medium in the short-run.

Additionally, since this is an alternative that has Group X positioned outside of ABC, the group’s previous organizational fit issues would be eliminated. This means that Group X would then be free to operate their business without the bureaucratic constraints that hindered them from maximizing their profitability while they were a part of ABC.

Overall, therefore, this alternative presents Group X with the greatest opportunity to overcome the issues that are currently affecting their profitability.

Customer Satisfaction

For the same reasons discussed in section the “Develop PWS III within ABC: International & Domestic Customers” section, we expect low/medium customer satisfaction in
In the short run and high customer satisfaction in the long-run. Just as in the case of executing this alternative while still being a part of ABC, this spin-off option also finds Group X pursuing a larger customer base. This means that they would have to increase the capacity of their existing customer service centre as well. The downside of this is that they would find themselves having to depart from the intimate customer service infrastructure that their customers are currently accustomed to in order to expand. Overall, their need to expand would involve exposing existing customers to change – and changes almost always take a while to be accepted by customers. The Dell example from the second sub-section of this section (6.6.2) is applicable in this situation as well (CNET News, 2004).

This alternative could result in high customer satisfaction in the long-term because of the benefits of the Blue Ocean strategy outlined earlier.

**Innovation**

As we established earlier, the spin-off situation facilitates the right climate and environment for innovation. Therefore, we rank the innovation goal as high in the long-term and in the short-term.

**Brand Image Development**

This alternative could offer an ideal opportunity for Group X to develop its own identity and image as distinct from Company ABC for both long-term and short-term goals. Value innovation targets customers’ specific but unfulfilled needs, and based on the logic of jobs-need-to-be-done approaches. It creates tremendous value for customers and goes against conversional wisdom of how things are done in the business world. Therefore, Kim and Mauborgne argue, "companies that value-innovate earn brand buzz and a loyal customer following that tends to shun imitators (2005, p.188)."
Analysis – Third Party Acquisition

Profitability

Selling Group X may offer the greatest current profit at the lowest risk for Group X’s shareholders. However, even though the acquiring firm currently has a strong competitive position, long-term growth for the merged company will be limited when the EPM industry becomes mature.

Customer Satisfaction

Customer satisfaction is low because clients typically do not like to switch to other software vendors. This situation actually has happened to many previous PeopleSoft customers when Oracle acquired PeopleSoft. In the long-term, if a merged company maintains the same or higher levels of quality for their products and services, customer satisfaction will increase from low to medium. That is why many industry analysts doubt whether Oracle can maintain PeopleSoft’s previous client base without attrition.

Innovation

After acquisition, innovative fulfillment goal will be low for both long-term and short-term perspectives. After acquisition, Group X would have lost its dominance and independence. The focus will be to adapt to the new culture and strategy of the acquiring firm rather than to devote themselves to innovation. A similar situation was when Agilent acquired SAFCO Technologies in 2000. In this case, Agilent was the acquirer and SAFCO was the acquired company. In the short-run, Agilent stifled SAFCO’s innovation with rigid bureaucracy as they focused on making SAFCO more like Agilent. Employees left in droves as Agilent struggled to understand their new acquisition. In the end, there were mass-layoffs of SAFCO employees and innovation in SAFCO’s original business stopped completely. The SAFCO employees that
remained went on to work on Agilent innovations and SAFCO's innovations were either
divested or annihilated.

If Group X wants to continue fulfilling their innovation goals, they would not be doing
themselves any favours by seeking to be acquired, as this is typically disastrous for the company
being acquired.

**Brand Image Development**

As a part of a company that acquires them, Group X would find that they would never
realize their brand development goal. By accepting this alternative, Group X would forfeit the
chance to develop its own brand name or identity.

6.6.3 Multi-Goal Prediction Matrix for Group X

According to Vining and Meredith, evaluation alternatives require both prediction and
evaluation (2000). The first step, prediction, forecasts the impact of each alternative on each
evaluation criterion. Prediction normally is descriptive, such as “High, Medium, and Low.” The
matrix, Table 6-3, illustrates the predicted possibility that each strategic alternative will enable
Group X to achieve the goals. Vining and Meredith designed the matrix in order to help clarify
the difference between alternatives and goals and understand how each alternative is associated
with the company’s goals (2000). On Table 6-3, the expected prediction is measured by using a
low-medium-high ranking (Vining and Meredith, 2000). Section 6.6.2 above explains the whole
prediction process.
The prediction matrix stresses that the alternative #1 (Spin-off: with PWS III and Domestic & International Customer Focus) has the highest possibilities for Group X to accomplish all long-term goals. Group X would be able to achieve three out of four long-term goals if it pursued the alternative #4 (Spin-off: with PWS I & II and Domestic Customer Focus). However, neither does this matrix consider weights of goals nor the degree of value attached to each goal. Therefore, this matrix is too vague to make final judgement of the superior alternative.

### 6.6.4 Multi-Goal Valuation Matrix for Group X

Vining and Meredith (2000) clarify that the second step of evaluation, valuation, assigns a value to each impact and assigns weights to each evaluation criterion. Valuation generally is evaluative. These two scholars also proposed the valuation matrix in order to provide a clear visual summary and comparison for managers or analysts to select the “best” strategic alternative. Table 6-4 indicates the probabilities presented in Table 6-3 to the relative importance of each goal presented in Table 6-2.
Table 6-4: Multi-Goal Valuation Matrix

<table>
<thead>
<tr>
<th>Goals</th>
<th>Strategic Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Alternative #1</td>
</tr>
<tr>
<td>Max Profitability (L/S)</td>
<td>3/2</td>
</tr>
<tr>
<td>Long term (W=0.3)</td>
<td>High</td>
</tr>
<tr>
<td>Short term (W=0.4)</td>
<td>Med</td>
</tr>
<tr>
<td>customer satisfaction (L/S)</td>
<td>3/2.5</td>
</tr>
<tr>
<td>Long term (W=0.3)</td>
<td>High</td>
</tr>
<tr>
<td>Short term (W=0.2)</td>
<td>Med/High</td>
</tr>
<tr>
<td>Innovative fulfillment (L/S)</td>
<td>3/3</td>
</tr>
<tr>
<td>Long term (W=0.2)</td>
<td>High</td>
</tr>
<tr>
<td>Short term (W=0.1)</td>
<td>High</td>
</tr>
<tr>
<td>Brand lineage Development (L/S)</td>
<td>3/3</td>
</tr>
<tr>
<td>Long term (W=0.2)</td>
<td>High</td>
</tr>
<tr>
<td>Short term (W=0.1)</td>
<td>High</td>
</tr>
<tr>
<td>Sum of Utility (Long-term)</td>
<td>3</td>
</tr>
<tr>
<td>Sum of Utility (Short-term)</td>
<td>2.46</td>
</tr>
</tbody>
</table>

Notes: (1) Weights are noted by "w", and the first two goals are weighted more heavily.
(2) Valuation: High=3, Mid/high=2.5, Med=2, Med/low=1.5, Low=1
(3) L=Long-term, S=Short-term

Based upon Vining and Meredith (2000)

6.7 Recommendations and Conclusions: Spin-off, New Products to New Customers in Canada and in Asia Pacific Areas

6.7.1 Risk Considerations

We have chosen the alternative based on Kim and Mauborgne's Blue Ocean framework (2000). According to the authors, although there is no strategy that is completely without risk, the principles and analytical frameworks based on Blue Ocean strategy are able to maximize the opportunity and minimize the risk. Table 6-5 shows that the six principles of Blue Ocean strategy are able to attenuate six different risk factors.
Table 6-5: The Six Principles of Blue Ocean Strategy

<table>
<thead>
<tr>
<th>Formulation Principles</th>
<th>Risk Factor Each Principle Attenuates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconstruct market boundaries</td>
<td>↓ Search risk</td>
</tr>
<tr>
<td>Focus on the big picture, not the numbers</td>
<td>↓ Planning risk</td>
</tr>
<tr>
<td>Reach beyond existing demand</td>
<td>↓ Scale risk</td>
</tr>
<tr>
<td>Get the strategic sequence right</td>
<td>↓ Business model risk</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Execution Principles</th>
<th>Risk Factor Each Principle Attenuates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overcome key organizational hurdles</td>
<td>↓ Organizational risk</td>
</tr>
<tr>
<td>Build execution into strategy</td>
<td>↓ Management risk</td>
</tr>
</tbody>
</table>

Source: (Kim and Mauborgne, 2005, p.21)

6.7.2 Sensitivity of the Recommended Alternative to the Best-Case Scenario

If the best-case scenario occurs, Group X would best achieve its goals efficiently and effectively by offering the right solution to the specific targeted segment, i.e., ISO-registered organizations. The market immediately accepts the new offerings both in Canada and in Asia Pacific areas. Profits generated from the new solution and new customers are enough to support all of Group X’s costs, including R&D and overhead costs. Based on our research and analysis, we estimate that this scenario has better than a 50-50 chance of occurrence.

6.7.3 The Sensitivity of the Recommended Alternative to the Worst-Case Scenario

If the worst-case scenario occurs, in order to accomplish its goals, Group X must amend its strategy to overcome increasing competition due to the substitution of in-house developed EPM software and existing competitors in the industry. If this were the case, Group X might choose a strategic partner in the Asia Pacific region such as in China or India, and focus on this new international market. Group X could then outsource development and translation for the new PWS solution to this partner in China or India. This would be an effective way to cut costs and ease into Chinese or Indian markets. In addition, potential clients in Asia Pacific areas do not have enough resources and capabilities to build the EPM solution in-house. In particular, they have not realized the necessity of developing in-house HR solutions. They need a third party to
educate customers by demonstrating the benefits to them before they pursue the solutions. At any rate, as mentioned in Section 6.5.2, this is an unlikely scenario.

6.7.4 Summary

Following Vining & Meredith’s Metachoice framework, the analyst has scrutinized five strategic alternatives (2000). The viable growth strategy that the analyst has concluded is best for Group X is to spin-off from Company ABC, bring the new product to the new market in Canada and Asia Pacific. To deal with uncertainty, we have also completed a scenario analysis for best-case, worst-case, and most-likely outcomes.

6.7.5 Limitations of This Analysis and Areas for Further Research

While we have made every effort to present a realistic and logical analysis, Group X should not view such recommendations as an ultimate strategy. Given the dynamic features of the new emerging EPM industry and other relevant factors, the recommended strategy would be inappropriate when any of these factors change dramatically. Therefore, Group X should closely monitor its external environment and industry competitiveness. If necessary, Group X should apply the framework of this analysis to re-evaluate its value chain design, strategic goals, and strategy.

Due to time constraints, we can only use secondary data to conduct the necessary research to lead us to a solid strategy for Group X. The analysis reveals that further research may be valuable in the following areas:

✓ The manner in which the following variables below impact the needs and wants of potential purchasers/users of the EPM solution: (1) the characteristics of the industries, (2) the structure of workforce, i.e. the ratio between technical employees versus non-technical workers, (3) the complexity of the job and
employees’ past experience and training, (4) the company’s background, culture, values, and norms, (5) unionization or relevant legal requirements, and (6) the life-cycle and ownership of the company

✓ The criteria and concerns that existing and potential clients use to evaluate and select the EPM vendors.

✓ The concerns of globalized human resources management and the challenges facing cross-cultural EPM system design e.g. the difference between Chinese EPM and North American EPM systems.
Appendix A: A Detailed Competitor List


Indirect competitors: no PM system, Microsoft Word or/and Excel, in-house development software, and outsourced workloads.

Potential competitors: Kronos, Workbrain, MDSI, Witness, KabaBenzing Taleo, Yahoo/kesumix, Virtual Edge, Ochimes, Peopleclick Callidus, Synygy, Centive.
Appendix B: Definition of HCM and Payroll Processing Applications

Market

Human Capital Market and Payroll Processing Applications Market Definition

eRecruiting

eRecruiting applications are designed to automate the recruitment process through better tracking of applicants, screening and skills assessment, profiling and resume processing, and identifying talents inside or outside the organization.

Other key features include:

- Manage skills inventories
- Create and manage job requisitions
- Identify appropriate employment candidates
- Coordinate team collaboration within hiring processes
- Facilitate resource planning
- Deploy workers to appropriate jobs, projects, or teams

Incentive Compensation

Incentive compensation applications are designed to automate the process of providing cash and noncash incentives to employees, partners, and external users through advanced modeling, reporting, and built-in interfacing to payroll processing systems.

Other key features include:

- Quota and territory management
- Calculation and distribution of commissions, spiffs, royalties, incentives to employees, and channel and business partners
- Compensation analysis using internal and external data for retention risk analysis
- Linking incentives — cash and noncash — to business objectives
- Payroll and payment engine interfaces
- Account payables integration
Performance Management

Performance management applications are designed to automate the aggregation and delivery of information pertinent to the linking of job roles and the mission and goals of the organization. More specifically, the system allows users to automate the performance review process by using mechanisms such as training and key performance indicators to constantly track and monitor the progress of an individual employee, work team, and division.

Some of the key features include:

- Assessment of individual and organizational skills gaps that impede performance and job advancement
- Continuous reviews and establishing milestones
- 360-degree evaluation and real-time feedback
- Performance appraisal automation
- Goal setting and tracking
- Employee surveys
- Alignment of human assets to corporate objectives
- Learning development and job improvement programs
- Fast tracks for top performers
- Delivering training
- Content creation and templates

Workforce Management

Workforce management applications are designed to automate the deployment of workforce through workload planning, scheduling, time and attendance tracking, resource management, and rules and compliance management. Increasingly, workforce management applications are being integrated into customer relationship management applications in a contact center environment. Through extensive use of workforce management applications, organizations are also able to develop training guidelines, career advancement plans, and incentive compensation programs to improve, motivate, and sustain the quality of their employees.

Other key features include:

- Skills and certification tracking
- Shift/vacation bidding
- Workload planning, forecasting, scheduling
Scheduling optimization
Customer wait-time forecasts
Coverage management
Absence management
Labor activity tracking
Rationalization of revenue per full-time equivalent
Cost of sales activities
Sales resource planning based on local and regional opportunities

## Appendix C: Correlates of the Life-Cycle

<table>
<thead>
<tr>
<th>Descriptors</th>
<th>Stage of Life-Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Embryonic</td>
</tr>
<tr>
<td><strong>Sales growth rate</strong></td>
<td>Increasing at increasing rate, but uncertain potential</td>
</tr>
<tr>
<td><strong>Profits</strong></td>
<td>Negative</td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td>Negative</td>
</tr>
<tr>
<td><strong>Nature of innovation</strong></td>
<td>Radical</td>
</tr>
<tr>
<td><strong>Competitive emphasis</strong></td>
<td>New product performance</td>
</tr>
<tr>
<td><strong>Breadth of product line</strong></td>
<td>Diverse; many variations, design changes</td>
</tr>
<tr>
<td><strong>Purchasing patterns</strong></td>
<td>Unpredictable</td>
</tr>
<tr>
<td><strong>Innovation driver</strong></td>
<td>Customer needs</td>
</tr>
<tr>
<td><strong>Process Technology</strong></td>
<td>&quot;Inefficient&quot;; flexible</td>
</tr>
<tr>
<td><strong>Organizational control</strong></td>
<td>Informal, entrepreneurial</td>
</tr>
</tbody>
</table>

---

169
<table>
<thead>
<tr>
<th>Price elasticity of demand</th>
<th>Inelastic; few customers</th>
<th>Increasing</th>
<th>Elastic in segments (price competition) inelastic across segments</th>
<th>Very elastic; high buyer bargaining power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>High; few pioneers</td>
<td>Declining as competitors enter</td>
<td>Increasing after shakeout</td>
<td>High; few remaining harvesters</td>
</tr>
<tr>
<td>Barriers to entry</td>
<td>High; if proprietary product</td>
<td>Decreasing; more technology transfer</td>
<td>Increasing as capital intensity increases</td>
<td>High capital intensity; low returns</td>
</tr>
<tr>
<td>Barriers to exit</td>
<td>Low; little investment</td>
<td>Low, but increasing</td>
<td>High for large company</td>
<td>Decreasing; end game</td>
</tr>
<tr>
<td>Technology</td>
<td>Changes</td>
<td>Better known</td>
<td>Stable</td>
<td></td>
</tr>
<tr>
<td>Ratio of fixed to variable costs</td>
<td>Generally low</td>
<td>Increasing</td>
<td>High</td>
<td>Decreasing</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>Few; generally unimportant</td>
<td>Increasing capital intensity</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Experience curve effects</td>
<td>Largest gains early</td>
<td>Very high</td>
<td>Decreasing</td>
<td>Few</td>
</tr>
<tr>
<td>Vertical integration of competitors</td>
<td>Low</td>
<td>Increasing</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Appendix D: Group X’s 12 Key Competitors: Value Curves

1. Halogen Software

D - 1: Halogen's Value Curve #1

The figures indicate that Halogen has started to focus on specific vertical markets. For example, its e-Appraisal Healthcare solution provides the necessary documentation support for Joint Commission on Accreditation of Healthcare Organization certifications. (Notes: e-Succession will be available in Q4 of 2006).
Two value curves of Halogen illustrate that it has strong competitive position in the market. (Specialization on Healthcare certifications)
Two value curves of Kenexa illustrate that it has medium to strong competitive position in the EPM market. (Specialization on retail hourly worker performance management)
3. MindSolve Technologies

D - 5: MindSolve Technologies' Value Curve #1

Two value curves of MindSolve illustrate that it has strong overall functionality and strong competitive position in the EPM market. (Specialization on competency management and writing assistance tools for managers)
4. Oracle/PeopleSoft

D-7: Oracle/PeopleSoft's Value Curve #1

D-8: Oracle/PeopleSoft's Value Curve #2

Features - Key Elements of Product, Service, and Delivery (Factors of Competition)

Two value curves of Oracle/PeopleSoft illustrate that it offers a comprehensive EPM suite and has strong competitive position in the EPM global market. (Focus on standardization rather than specialization).
5. Plateau

D - 9: Plateau's Value Curve #1

Two value curves of Plateau illustrate that it has medium competitive position in the EPM market. (Specialize in learning management).

D - 10: Plateau's Value Curve #2

Features - Key Elements of Product, Service, and Delivery (Factors of Competition)
Two value curves of SAP illustrate that in terms of ease-of-use and flexibility, SAP has medium competitive position in the EPM market.
7. SilkRoad Technology (Human Asset Technologies)

**D - 13: SilkRoad Technology's Value Curve #1**

[Value Curve Image]

**D - 14: SilkRoad Technology's Value Curve #2**

[Value Curve Image]

**Features - Key Elements of Product, Service, and Delivery (Factors of Competition)**

Two value curves of SilkRoad Technology illustrate that it has medium to strong competitive position in the EPM market. (Specialize in competency management and recruiting).
Two value curves of Softscape illustrate that it has very strong competitive position in the EPM market. (Specialize in development planning)
9. Technomedia

D - 17: Technomedia's Value Curve #1

Two value curves of Technomedia illustrate that it has below medium competitive position in the EPM market. (Specialize in learning management)
10. SuccessFactor

D-19: SuccessFactor's Value Curve #1

Two value curves of SuccessFactor illustrate that it has strong competitive position in the EPM market. (Specialize in competency management)
11. viDesktop

D - 21: viDesktop's Value Curve #1

Two value curves of viDesktop illustrate that it has weak to medium competitive position but very strong position in the legal service industry the EPM market.
12. Workstream

D - 23: Workstream Value Curve #1

D - 24: Workstream’s Value Curve #2

Features - Key Elements of Product, Service, and Delivery (Factors of Competition)

Two value curves of Workstream illustrate that it has relatively weak competitive position in the EPM market.
Appendix E: Bersin & Assoc. Study Methodology and Demographics

This study was conducted during the winter and spring of 2005 and was sponsored by Cornerstone OnDemand, a vendor of integrated Human Capital Systems. The study included a detailed survey, as well as extensive telephone interviews with 15 different organizations.

The respondent profile was as follows:

- Number of Respondents: 553
- Average Organization Size: 15,100 employees
- Median Organization Size: 2,500 employees

![Respondent Profile - Company Size](image)

As the following data shows, the respondents came from a broad range of decision makers, including executives, directors, and managers from both HR and Training. The weighting between Training and HR is approximately equal. Since 40% of respondents were Director level or higher, and 93% were Manager level or higher, we believe that this study represents the trends and opinions of decision makers.
Figure 25: Level of Respondents – Decision Makers

Figure 26: Job Function of Respondents – Balanced between HR and Training
Figure 27: Respondents by Industry

Appendix F: The Four Steps of Visualizing Strategy

- **Visual awakening**
  - Compare your business with your competitors’ by drawing your “as is” strategy picture
  - See where your strategy needs to change

- **Visual exploration (go into the field to)**
  - Discover the adoption hurdles for non-customers
  - Observe the distinctive advantages of alternative products and services
  - See which factors we should eliminate, create, or change

- **Visual strategy fair**
  - Drew PWS “to be” strategy canvases based on insights from field observations
  - Get feedback on alternative strategy pictures from customers, lost customers, competitors’ customers, and non-customers.
  - Use feedback to build the best “to be” strategy

- **Visual communication**
  - Distribute the before-and-after strategic profiles on one page for easy comparison
  - Support only those projects and operational moves that allow Group X to close the gaps to actualize the new strategy

Appendix G: The Four Actions Framework

Reduce
Which factors should be reduced well below the industry’s standard?

Reduce
Which factors should be reduced well below the industry’s standard?

Reduce
Which factors should be reduced well below the industry’s standard?

Reduce
Which factors should be reduced well below the industry’s standard?

A New Value Curve

Appendix H: Selected ISO Requirements

BS EN ISO9001:2000 Quality management system: Requirements

... 6.2 Human resources

6.2.1 General

Personnel performing work affecting product quality shall be competent on the basis of appropriate education, training, skills and experience.

6.2.2 Competence, awareness and training

The organization shall

a) determine the necessary competence for personnel performing work affecting product quality,

b) provide training or take other actions to satisfy these needs,

c) evaluate the effectiveness of the actions taken,

d) ensure that its personnel are aware of the relevance and importance of their activities and how they contribute to the achievement of the quality objectives, and

e) maintain appropriate records of education, training, skills and experience (see 4.2.4).
6.2 People

6.2.1 Involvement of people

Management should improve both the effectiveness and efficiency of the organization, including the quality management system, through the involvement and support of people. As an aid to achieving its performance improvement objectives, the organization should encourage the involvement and development of its people

— by providing ongoing training and career planning,
— by defining their responsibilities and authorities,
— by establishing individual and team objectives, managing process performance and evaluating results,
— by facilitating involvement in objective setting and decision making,
— by recognizing and rewarding,
— by facilitating the open, two-way communication of information,
— by continually reviewing the needs of its people,
— by creating conditions to encourage innovation,
— by ensuring effective teamwork,
— by communicating suggestions and opinions,
— by using measurements of its people's satisfaction, and
— by investigating the reasons why people join and leave the organization.

6.2.2 Competence, awareness and training

6.2.2.1 Competence

Management should ensure that the necessary competence is available for the effective and efficient operation of the organization. Management should consider analyses of both the present and expected competence needs as compared to the competence already existing in the organization.

Consideration of the need for competence includes sources such as

— future demands related to strategic and operational plans and objectives,
— anticipated management and workforce succession needs,
— changes to the organization's processes, tools and equipment,
— evaluation of the competence of individual people to perform defined activities, and
— statutory and regulatory requirements, and standards, affecting the organization and its interested parties.
6.2.2.2 Awareness and training

Planning for education and training needs should take account of change caused by the nature of the organization's processes, the stages of development of people and the culture of the organization.

The objective is to provide people with knowledge and skills which, together with experience, improve their competence.

Education and training should emphasize the importance of meeting requirements and the needs and expectations of the customer and other interested parties. It should also include awareness of the consequences to the organization and its people of failing to meet the requirements.

To support the achievement of the organization's objectives and the development of its people, planning for education and training should consider:

- experience of people,
- tacit and explicit knowledge,
- leadership and management skills,
- planning and improvement tools,
- teambuilding,
- problem solving,
- communication skills,
- culture and social behaviour,
- knowledge of markets and the needs and expectations of customers and other interested parties, and
- creativity and innovation.

To facilitate the involvement of people, education and training also include:

- the vision for the future of the organization,
- the organization's policies and objectives,
- organizational change and development,
- the initiation and implementation of improvement processes,
- benefits from creativity and innovation,
- the organization's impact on society,
- introductory programmes for new people, and
- periodic refresher programmes for people already trained.

Training plans should include
- objectives,
- programmes and methods,
- resources needed,
- identification of necessary internal support,
- evaluation in terms of enhanced competence of people, and
- measurement of the effectiveness and the impact on the organization.

The education and training provided should be evaluated in terms of expectations and impact on the effectiveness and efficiency of the organization as a means of improving future training plans.

ISO 9001:2000, Quality management systems — Requirements
6.2.2 Competence, awareness and training

The organization shall
a) determine the necessary competence for personnel performing work affecting product quality,
b) provide training or take other actions to satisfy these needs,
c) evaluate the effectiveness of the actions taken,
d) ensure that its personnel are aware of the relevance and importance of their activities and how they contribute to the achievement of the quality objectives, and
e) maintain appropriate records of education, training, skills and experience.
Appendix I: Mintzberg’s Five Organizational Descriptions

Mintzberg’s Five Organizational Descriptions

**Simple Structure**

The *Simple Structure* (see below) has a Strategic Apex and an Operating Core but very little to no Middle Line management, and no Support Staff or Technostructure. This is typical of an entrepreneurial organization where the entrepreneur(s) makes up the Strategic Apex and the people she hires to do the work make up the Operating Core.

**Henry Mintzberg’s Simple Structure**

![Diagram of Simple Structure]

**Professional Bureaucracy**

The Professional Bureaucracy has all five parts but distinguishes itself by the standardization of skills within the organization. Training and indoctrination are key to this type of organization and the operating core is hired *because* of their wealth of training. These highly trained professionals require a solid, well-staffed *Support* entity that can aid in keeping them focused on the specialized work that they do. The technostructure does not have to be large in this type of organization since the professionals in the Operating Core can design their own processes to get the work done. In addition, the middle line is small because these professionals typically succeed in completing their work with minimal supervision. Typical Professional Bureaucracies are hospitals and universities where professionals such as surgeons and research
professors who are highly trained, who need very little direct management and who require only basic guidelines from the small technostructure occupy the Operating Core.

Henry Mintzberg’s Professional Bureaucracy Structure

Machine Bureaucracy

The Machine Bureaucracy depends largely on the standardization of work for the purpose of coordination. This type of structure is typical of a mature organization where the large volume of work warrants repetition and standardization. The technostructure is large for a Machine Bureaucracy since it standardizes work processes and is thus the key part of this type of organization. Very important to this type of structure is the regulation of technical systems that enable the formalization of routine work. High performance distinguishes these organizations rather than their problem-solving prowess\(^{33}\) and government agencies are typically Machine bureaucracies.

\(^{33}\) Source: http://www.12manage.com/methods_mintzberg_configurations.html
**Divisionalized Structure**

Divisionalized structures are “a set of rather independent entities joined together by a loose administrative overlay”. The main difference between this structure and the others is the autonomy of the operating core’s units – each of these is a division with its own apex, support, technostructure, middle line and operating core of individuals. This is typical of larger organizations with diverse businesses under one roof. Standardization of outputs is a key feature of this structure and the middle line management is the key part of the organization. Another key feature is the formalization of behaviour within divisions. For a divisionalized organization, it is imperative that each division’s behaviours are predictable and thus controllable.
Adhocracy

Finally, Adhocracies operate based on mutual adjustment between principals which means “informal communication and interaction” between the experts in the organization. An Adhocratic organization’s best-known feature is its ability to be fluid in nature as evidenced by the constant shifting of power in accordance to the project at hand. The power lies with the experts who “reside” in the operating core and not in the strategic apex.

There are two types of Adhocracy: Operating and Administrative. Operating Adhocracy “treats each client problem as a unique one to be solved in creative fashion” (Mintzberg, 1980, p. 11) and it is a structure where “the operating and administrative work blends into a single effort” (Mintzberg, 1980, p. 11). An example of this is a creative advertising agency.

In Administrative Adhocracy, however, there is a clear separation between administrative and operating work. An organization such as would be an electronic component producer. Interestingly, the administrative component does the design work while the operating component does the actual implementation of the work (production, construction etc.)
Henry Mintzberg's Adhocracy Structure

- Strategic Apex
- Support Staff & Techno Structure
- Operating Core
## Appendix J: Common Applications of Generic Strategies

<table>
<thead>
<tr>
<th>Generic Strategy</th>
<th>Commonly Required Skills &amp; Resources</th>
<th>Common Organizational Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>✓ Strong marketing abilities</td>
<td>✓ Strong coordination among functions in R&amp;D, product development, and marketing</td>
</tr>
<tr>
<td></td>
<td>✓ Product engineering</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Creative flair</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Strong capability in basic research</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Corporate reputation for quality or technological leadership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Long tradition in the industry or unique combination of skills drawn from other businesses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Strong cooperation from channels</td>
<td>✓ Subjective measurement and incentives instead of quantitative measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Amenities to attract highly skilled labor, scientists. Or creative people</td>
</tr>
</tbody>
</table>

### Appendix K: Optimum Entry Strategies

<table>
<thead>
<tr>
<th>Technologies Embodied in the products</th>
<th>Base</th>
<th>New, familiar</th>
<th>New, unfamiliar</th>
</tr>
</thead>
<tbody>
<tr>
<td>New, unfamiliar</td>
<td>Joint Ventures</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisitions</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisitions</td>
</tr>
<tr>
<td>New, familiar</td>
<td>Internal Market</td>
<td>Internal Ventures</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisitions</td>
</tr>
<tr>
<td>New, familiar</td>
<td>Development or Acquisitions</td>
<td>Licensing</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisitions</td>
</tr>
<tr>
<td>Base</td>
<td>Internal Base</td>
<td>Internal Product</td>
<td>Joint Ventures</td>
</tr>
<tr>
<td>Base</td>
<td>Developments (or Acquisitions)</td>
<td>Developments (or Acquisitions)</td>
<td>(large firm with small firm)</td>
</tr>
<tr>
<td></td>
<td>Licensing</td>
<td>Licensing</td>
<td>Acquisitions</td>
</tr>
</tbody>
</table>

Appendix L: Blue Ocean Strategy Flowchart

1. Buyer utility
   Is there exceptional buyer utility in your business idea? No-Rethink
   Yes

2. Price
   Is your price easily accessible to the mass of buyers? No-Rethink
   Yes

3. Cost
   Can you attain your cost target to profit at your strategic price? No-Rethink
   Yes

4. Adoption
   What are the adoption hurdles in actualizing your business idea? Are you addressing them up front? No-Rethink
   Yes

5. A Commercially Viable Blue Ocean Idea

REFERENCE LIST


Collins-Dodd. (2006), Class notes for BUS 754 *Marketing for High-Tech*.


Group X (2005), Group X’s Sales Collateral Brochure, 2005


