I-WORX STRATEGIC ANALYSIS

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Abstract

i-worx is an IaaS provider based out of North Vancouver, B.C. The company provides a hosted infrastructure solution to companies that are seeking to outsource the management of their IT infrastructure onto a hosted platform. With its flagship product OfficeOneLive, the company has had success in penetrating the legal industry. While recent company growth rates have been good, global demands for hosted solutions are increasing and the company is evaluating a number of strategic opportunities that may position the company to capture some of this demand.

The purpose of this paper is to assess these opportunities and to identify which of them provides the best organizational fit for the company based on the potential number of users acquired, the sustainability of longer-term profits, the improvement of operational efficiencies, and the enhancement of their client care program. The analysis recommends that the opportunity of partnering with managed service providers under a revenue sharing model provides the best organizational fit for the company and should better position the company to reach its goal of being known as a premium hosted service provider in Canada by its clients, prospective clients and competitors.

Keywords: IaaS, hosted solutions, remote desktop, cloud computing, infrastructure as a service, managed service provider, IT infrastructure, i-worx

Dedication

I dedicate this work to my family and close friends who demonstrated the utmost strength and who were there for me when I needed them most in the fall of 2011. The strength you showed me is a strength that I will never forget and it is because of you and because of Him that I am able to complete this work and complete my degree. Lastly, I would also like to dedicate this work to my fiancée and love of my life Sabrina, who has shown me endless support and who has spent a countless number of hours by my side throughout my work on this paper. I love you all very much.

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Glossary

CAPEX	Capital Expenditure
DAAS	Desktop as a Service
ERP	Enterprise resource planning
IAAS	Infrastructure as a Service
MSP	Managed Service Provider
OPEX	Operating Expense
PAAS	Platform as Service
POS	Point of Sale
SAAS	Software as a Service
UPS	Uninterruptible power supply
WOW	Window of the World

1: Overview of i-worx

1.1 History of i-worx

Founded in 2003 by Jose Gavina and Andre Coetzee, i-worx, formerly known as ROWe Business Solutions began as a traditional IT Managed Service Provider. The former ROWe Business Solutions managed information systems for two recruitment agencies (Futureworks and Miles Employment Group) at their local offices. Jose and Andre were responsible for managing company IT systems that involved desktop, printer and server management, and basic maintenance of client desktops and IT networks. The company also delved into other IT related businesses early on by managing the development of timesheet entry software for the Elizabeth Fry Society. A third party developed the timesheet software application; however, the former i-worx members, Andre and Jose, were primarily involved in gathering business requirements and managing the development of the software through until completion. The timesheet software is still in use today. While software development helped the company survive in 2003, the company decided to focus on establishing itself as a reputable IT managed service provider. In 2004, the company hired their first additional employee and established an office in North Vancouver.

1.2 Hosted services

By 2005, the company had launched its Office in a Box solution, a hybrid solution providing equipment onsite (servers, switches, routers, UPS) while hosting some services such as the Microsoft Exchange mail server from a data centre. This marked the first move into providing hosted services for its clients and the first time hosting services in a data centre. Hosting Microsoft Exchange proved valuable to the company and to the end consumer. The primary benefit to the company for hosted services was the ability to scale their business for anticipated growth. Hosted services marked a trend both in the industry and for the future of i-worx. For the consumer, hosted services reduced costs, as clients would not be required to purchase their own server hardware, software licenses, or to manage these servers. In 2006, the company officially changed names to i-worx Enterprises, and consisted of six employees. By the end of 2006, the company had acquired a customer base of nearly 20 small businesses that were subscribing to one or more i-worx IT solutions. Company growth continued the following year as i-worx was able to sign 11 new contracts by the end of 2007.

1.3 Virtualization and cloud computing

New technologies such as hardware virtualization, and cloud computing were beginning to emerge rapidly by 2008 (Hemmings 2013) . Hardware

virtualization refers to the creation of a virtual machine that behaves much like a physical computer with its own operating system. Several virtual machines may operate on a single piece of hardware, thereby separating the software that runs on these virtual machines from the underlying hardware that is behind them. Virtualization enables maximization of hardware resources and allows for greater flexibility with these resources. The emergence of virtualization has created an environment which facilitated widespread adoption of cloud computing. Cloud computing refers to the use of computing resources which are made available from a remote location over the internet or private network. Infrastructure as a Service (IaaS) is a service model of cloud computing whereby software applications and user data is hosted and resides on remote servers. Cloud clients such as PC's, laptops, and mobile devices then provide access to the hosted applications. All processing takes place on the host server and no installation is required on the client PCs. IaaS as a service model allows for the management of the computing hardware and software through a cloud provider. The cloud provider provides computing resources and infrastructure as a service. In terms of pricing, cloud providers typically charge for services using a pay-per-use model, thereby commoditizing the use of these computing resources. From a business perspective, the IaaS pay per use model changes the market such that companies wishing to acquiring computing resources now have the ability to move away from the traditional capex model (whereby hardware and software is purchased and depreciated over time) to an opex model (pay per use). There can also be significant cost reductions by companies who adopt cloud

technologies. IaaS allows for the reduction of operational costs by outsourcing hardware and software maintenance and support to a cloud provider. Additionally this allows for a reallocation of previous costs away from IT hardware, software and personnel towards other company objectives. One concern is security, as many companies may hesitate to store user/customer data on the cloud providers' servers.

1.4 i-worx hosted solutions

With the emergence virtualization and cloud computing technologies, i-worx began research and development into a hosted desktop solution in 2008. The goal of the hosted desktop solution was to move all of the clients IT infrastructure onto the cloud and stored on i-worx data centres. In 2009, the company launched its flagship product OfficeOneLive. OfficeOneLive is consists of the following two product offerings:

a. ***OfficeOneDesktop*** – a hosted desktop solution enabling remote access to customized windows desktops for clients

b. ***OfficeOneMail*** – a hosted email solution based running on Microsoft Exchange mail servers.

By September 2009, the company had acquired its first paying client of OfficeOneLive. Interest in the new product started gaining traction and many of i-worx' existing clients were beginning to migrate over to the OfficeOneLive hosted solution. By 2011, nearly 35% of the company's customers had their IT infrastructure managed through OfficeOneLive. OfficeOneLive provided for a hosted alternative to the prior Office in a Box solution provided by i-worx. While physical desktops remained on client sites, the software applications, and user data is stored on virtualized servers located in i-worx data centres. Users could connect to these virtual servers remotely accessing their desktops with their software applications and data pre-loaded. The OfficeOneLive solution claimed many benefits over the traditional managed service provider model, some of these were:

- **Standardization of desktops:** Client users can access desktops with all of the same applications and configuration.

- **Support Included at Fixed Rate:** IT support included as part of service level agreement and for a fixed monthly fee.

- **No Expensive Hardware Needed:** Clients no longer purchase expensive server and other IT Infrastructure.

- **Easy Scalability:** Adding or removing users requires minimal effort.

- **Disaster Recovery:** Servers are backed up regularly and failover options exist.

While the OfficeOneLive product was growing in popularity, the overall growth of their client base was also keeping steady with an average of 12 new customers per year from 2009 to 2011. With the success of the OfficeOneLive product, in 2012, i-worx made the decision to focus all efforts on providing hosted services and solutions to clients, moving away from offering services through the traditional managed service provider model.

1.5 i-worx today

i-worx currently employees 15 employees (3 infrastructure, 2 projects, 7 client services, 3 sales marketing admin) and its central office located in North Vancouver. The company's primary focus is in providing hosted services to new and existing clients, with over 60% of its current business is in providing hosted services. i-worx' has acquired 68 clients since inception, and has a very low attrition rate (2.3% per year over the past 10 years). The client base comes from various industry sectors, with the largest presence coming from law offices in the lower mainland. Company success in the legal industry attributes to successful marketing campaigns within the industry.

Below is a breakdown of i-worx' existing client base:

Table 1- Customer industry breakdown

Industry Segment	**Number of Clients**
Legal	20
Manufacturing and Engineering	11
Accounting/Bookkeepers	3
Business Consultants\Advisors	6
Construction	4
Mining	2
Mortgage Brokers	3
Other Professional Services	5
Publishing Companies	3
Recruitment Agents	2
Retail	2
Wholesale and distribution	7

Source: (i-worx 2013)

With 68 clients and counting, i-worx' user base consists of 1200 Users (700 OfficeOneLive users). Below is a chart of new client acquisitions by year since the inception of the company. The majority of these clients are located in the lower mainland or western Canada.

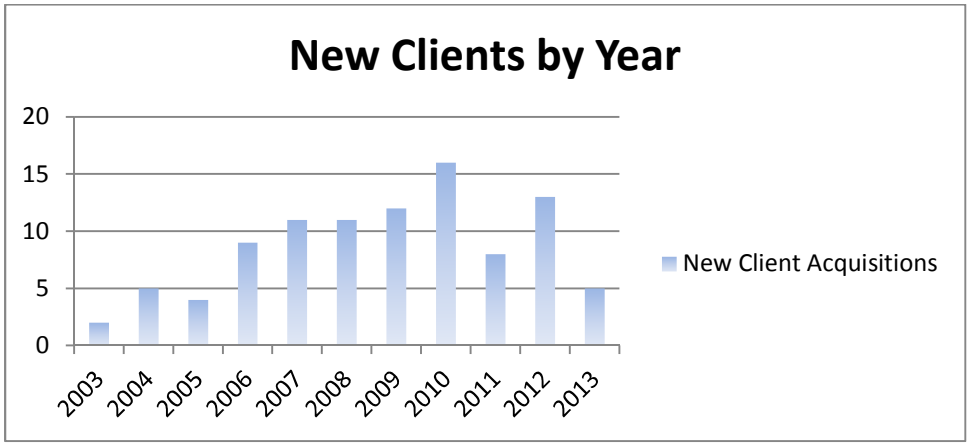

Figure 1 New clients by year (i-worx 2013)

In addition to OfficeOneLive, the company is expanding on its portfolio of product offerings through the addition of two hosted products:

COMING in 2013:

OfficeOneDrive – a file share offering similar to drop box (expected September 2013)

OfficeOneApps – an application-streaming offering (expected December 2013)

COMING in 2014:

OfficeOneConnect – a unified communication offering – (expected first quarter 2014)

1.6 Company growth objectives

i-worx has set some short term and longer term objectives for company growth. The company is aiming for 6,000 users by 2015. Given the current user base of 1200 users amongst 68 clients, which represents an average of 17.64 users per client, the company would need to acquire approximately 272 new clients by the end of 2015 in order to achieve this goal. Below is a summary of short-term company objectives set by i-worx in their WOW 2015 (Window of the World 2015, see Appendix C):

i. Market and sell hosted service offerings to small and medium size organizations throughout Canada and the USA

ii. Target number of user 6,000 by December 2015, and 64,000 users by 2019

iii. To be known as a premium hosted service provider both by clients, prospective clients and competitors

iv. Focus on professional service industries on the West Coast of Canada, with a longer-term goal of establishing a presence on the east coast.

In order to meet the aggressive targets the company would need to acquire 3560 clients by 2019 assuming an average of 17.64 users per client. Given the recent growth in the company's client base over the past 5 years (15-20% year over year growth in users), the company will need one or all of the following in order to meet both its short and longer term objectives with regards to customer acquisition:

- Shift in demand for i-worx OfficeOneLive product
- Creation and adoption of new i-worx products and services by existing and new customers
- Penetration of OfficeOneLive into other market segments, industries and or regions

While a shift in demand for the OfficeOneLive product may be possible, it is largely outside of the control of i-worx. Market demand

conditions and other external factors will require improvement to enable a positive shift in the demand for i-worx products and services.

Concerning the addition of revenue streams from newer i-worx products and services, ballpark estimates suggest that the OfficeOneDrive solution and the OfficeOneApps solution could increase total revenue by $81,600 and $72,000 on an annual basis respectively for the first couple of years. In total, the two new product offerings expect to add $153,600 in annual revenue per year. Taking a conservative estimate and assuming that the company will not secure any new customers between now and the end of 2014, the projected annual revenue for 2014 will be approximately $ 1.7 million. With the company goal of reaching 6,000 paid users by 2015, the company will require $8,000,000 dollars in annual revenue in order to reach this goal or revenue equivalent goal of having 6,000 paid users. Keeping the conservative approach and assuming no new customers from now until the end of 2015, there represents a shortfall of $6.3 million. Given this shortfall, the company will need to identify new opportunities and place emphasis on the penetration of the current products and services into new markets segments, industries and potentially new geographical business regions.

1.7 Opportunities

The short term and long-term goals are lofty given prior growth performance of the company over the past five years. The company has however identified a number of new market opportunities, which may help increase growth and strengthen their position within their industry. These opportunities will be analysed to provide a strategic recommendation for i-worx to realize future growth.

2: IaaS industry overview

i-worx currently provides hosted infrastructure services through its primary product offering OfficeOneLive. The company is an IaaS (Infrastructure as a service) provider in the cloud computing space. In this section, we will perform an industry analysis of the IaaS segment and of the cloud computing space.

2.1 The growth of cloud computing

Leading software vendors are placing large bets on the future of cloud computing. Microsoft, Google, and Adobe have all made significant investments in cloud offerings, in fact Adobe recently announced its flagship software packages such as Photoshop (Timson 2013) and Illustrator would only be available through online subscriptions. Software companies are shifting to SaaS (software as a service) model using cloud technologies to provide for more predictable and on-going revenue streams. SaaS not only benefits the software vendors, but also the clients. The SaaS model allows for instant updates and bug fixes, predictable costs, and the ability to commoditize software use by subscribing and unsubscribing for software services as needed. Similar to SaaS, many companies are also adopting IaaS (Infrastructure as a service) methods for

managing their IT infrastructure. The IaaS market is growing at a rapid pace, IaaS and PaaS (Platform as a service) revenue exceeded $2 billion in the first quarter of 2013, this represents 56% increase when comparing to the same quarter in 2012 (Seagate.com 2013).

2.2 IaaS growth within the cloud computing space

According to Forrester Research, IaaS is an area of cloud computing which deserves the most market attention, with 25% of enterprises planning to adopt IaaS via an external provider. Based on their research larger enterprises report greater awareness, interest, and adoption of IaaS than SMES. The key factors for enterprises deciding to adopt IaaS are instant provisioning of services, the ability to subscribe to services using a pay-per-use model, and the ability for enterprises to integrate their onsite infrastructure with anything deployed to an external service provider (source: Forrester Research: Cloud and Virtualization Survey Data). Another research firm, Gartner research reports that worldwide cloud services were worth $56.3 billion in 2009, an increase of 21.3% from 2008, and forecast to rise to $150.1 billion by 2013. Gartner also predicts the IaaS space will achieve a compound annual growth rate of 41.3% through 2016, the fastest growing of any public cloud computing area the firm tracks (Gartner.com 2012).

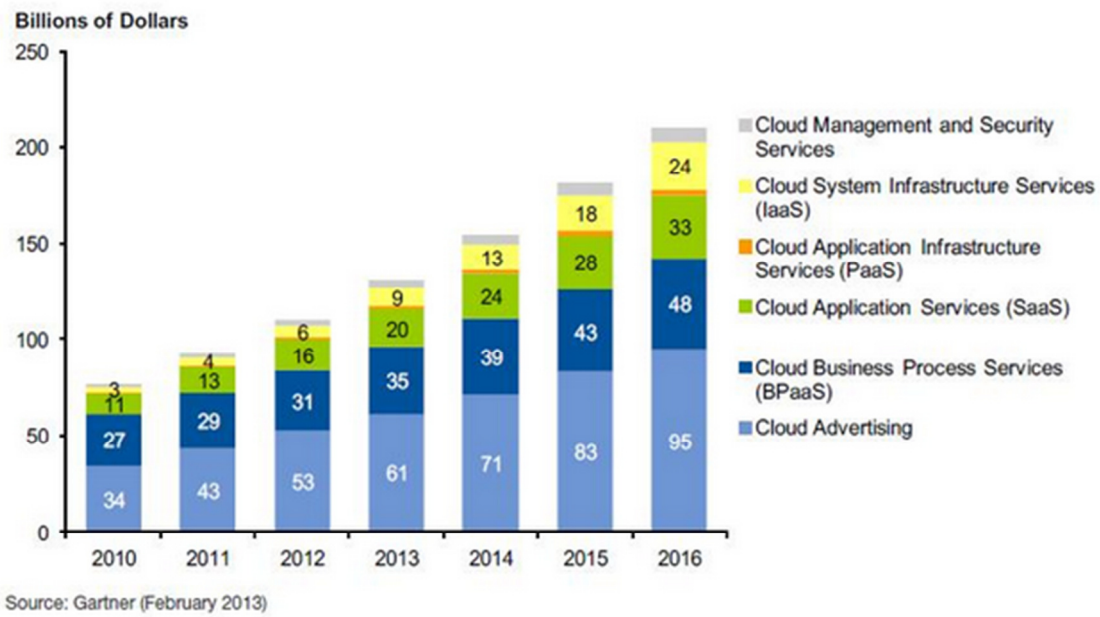

Figure 2 Cloud computing revenues (Gartner.com 2012)

Within the IaaS sector, the predicted spending by service shown in Figure 3 demonstrates that computing and storage provide the high growth rates with 42.8% and 36.4% and the highest projected dollars with 19.89 billion and 4.04 billion respectively (Cisco Infrastructure as a Service 2009).

	2010	2011	2012	2013	2014	2015	2016	CAGR (%) 2011-2016
Cloud System Infrastructure Services (IaaS)								
Compute	2.19	3.37	4.89	7.20	10.51	14.78	19.89	42.6
Print	0.05	0.07	0.10	0.13	0.18	0.23	0.29	31.5
Storage	0.64	0.86	1.13	1.68	2.35	3.13	4.04	36.4
Cloud System Infrastructure Services (IaaS) Total	**2.88**	**4.30**	**6.12**	**9.02**	**13.03**	**18.14**	**24.22**	**41.3**

Figure 3 IaaS revenues (Billions) (Created by author with data from (Cisco Infrastructure as a Service 2009)

Based on these numbers, it is clear the cloud computing space and the IaaS segment of cloud computing is seeing tremendous growth. This explains the significant strategic and monetary investments made by software and hardware vendors operating in this space. Specifically to i-worx however, it is important to understand how the company competes within this industry both at a global and at a regional level.

3: The competitive environment of i-worx

With billions of dollars in revenues, and a high growth rate, there are many players in the IaaS industry. As a result, a number of direct and indirect competitors exist for i-worx. This section provides some insight on the direct and indirect competition facing i-worx today.

3.1 Direct competitors

The following identifies some of the direct competitors for i-worx. These companies offer virtually the same set of products or services as i-worx and currently compete or have the ability to compete in i-worx target market.

3.1.1 DPS Cloud/GoCloud/ThinDesk

These companies represent some of the direct competitors to i-worx hosted desktop solution. All three of these companies provide a hosted desktop solution and target small to medium sized businesses seeking to move their IT infrastructure to the cloud. These companies work with businesses to create customized hosted desktop solutions for each of their clients, while offering similar benefits to i-worx such as multi-tenancy, disaster recovery, security and

accessibility from different platforms. One key differentiator is that these companies currently have little or no presence in Western Canada, i-worx' current target market. DPS Cloud and GoCloud operate out of the United Kingdom, while ThinDesk is located in Toronto, Canada. This is a key differentiator for a number of reasons, the first being the concern over data security and privacy. Many of i-worx clients are very sensitive to the security and privacy of their data, as such; these companies are more likely to select companies with a local presence to host their IT infrastructure. This is largely due to the regulatory issues involved in storing sensitive data outside of your own country. Further details on these regulatory issues are in section 4.1.5 of this paper. In addition to these concerns, a number of other factors may affect the decision for a company deciding on where their data should be stored. Some examples of this would be the performance and network latency issues for data stored further away and the strong local marketing presence of hosted solution providers. With approximately 76 clients in Western Canada, there currently does not exist any other direct competitors like i-worx with as strong a presence that operate out of this region.

3.1.2 Managed service providers

Traditional managed service providers are companies who provide and manage IT related services to organizations. MSP's primarily manage IT and network infrastructure at the client site, however there is has been a recent move

for MSPs to provide cloud offerings using third party products. Similar to an IaaS firm which provides a hosted desktop solution; MSPs allow organizations to outsource their IT related services, thereby allowing these organizations to focus on their core businesses. Some of the services a MSP can typically provide are desktop and server management, printer management, network configuration and maintenance, anti-virus protection, email services, and network security. MSPs typically provide for services using a service level agreement, where the services provided are pre-defined along with other metrics such as uptime that are guaranteed by the service provider. Fixed price or near fixed price contracts are predominant in the industry. Fixed pricing is attractive to organizations as it provides a level of predictability towards their IT spending. In addition to the predictability of the fixed price contracts, the overall cost of service is often lower than what it might cost for a company to manage their own IT systems. The reason for this is that the cost of maintaining and updating the hardware and software systems shares itself across all of the clients for a MSP.

While MSPs provide many benefits to firms seeking to outsource the management of their IT infrastructure, the approach they currently take is somewhat archaic and does not provide the many benefits of going with a cloud offering, such as multi-tenancy, scalability, and easy accessibility. Client data is also less secure as it is not stored in a central and secure data centre but rather at the clients offices.

3.1.3 Desktone

Desktone, based out of Massachusetts, USA, is a self-proclaimed 100% channel company, which targets companies like Managed Service Providers by offering them a proprietary DaaS (Desktop as a Service) platform that enables the MSP to provide a hosted solution to its client base. While Desktone does not exactly target the same market as i-worx, its hosted desktop platform provides MSPs and organizations an easier method for transitioning their IT infrastructure on the cloud. The setup of the infrastructure takes place through a web browser, allowing for easy creation of any number of virtual workstations and user group configurations. Desktone's model is very much partner based, providing training on their platform, and working with their partners to ensure their implementations of their technologies are successful. The platform provides for all of the same benefits as other hosted solutions such as multi-tenancy, disaster recovery, security and accessibility from different platforms.

3.2 Indirect competitors

Indirect competitors offer products that serve the needs of potential i-worx customers through a similar but non-identical product offering.

3.2.1 Microsoft Office 365

The move towards cloud technologies is industry wide. Large players such as Microsoft and Adobe have created cloud versions of their popular flagship products. In Microsoft's case, that product is Microsoft Office. Microsoft Office 365 is an online version of this popular office software suite. The product offers small businesses the ability to move to the cloud for as low as $99 CDN per year. By subscribing to this service model of the Office suite, up to five users can access Microsoft Office from their PCs, Mac's, or Mobile devices. In addition to access to cloud versions of Microsoft Word, Excel, Outlook, and PowerPoint, subscribers also receive 20 GB of storage on Microsoft SkyDrive. SkyDrive provides Office 365 users the ability to store documents, pictures, and other files on the cloud, and allows for easy file sharing amongst users. Although Office 365 is not quite the same product as i-worx' OfficeOneLive solution, it does provide a highly competitive alternative for companies whose users require nothing more than email and Microsoft Office suite of applications. The product demonstrates that the competitive threat to i-worx is also coming not only from similar IaaS firms, but also from some of the largest software vendors as more and more applications provide cloud versions of their software products.

3.2.2 Fusemail

Fusemail provides an email hosting and hosted Microsoft Exchange solution for small to large businesses, which provides features such as Spam &

Virus filtering, Email Archiving, Email Encryption, and Email Continuity. The product does not directly compete with OfficeOneLive, however does provide a solution that would compete with the OfficeOneMail product. As OfficeOneMail is more of a value-added product for OfficeOneLive customers, and since Fusemail does not provide a hosted desktop solution, Fusemail is an indirect competitor to i-worx.

3.2.3 Rackspace

Companies such as Rackspace provide cloud infrastructure solutions such as managed servers, storage and backup, databases, and hosted email; however, they do not exactly provide or target the same customer base as i-worx. The OfficeOneLive product targets small to medium sized businesses that are seeking to outsource their IT Infrastructure as well as the staff that manages it. Although Rackspace does provide a cloud solution for company IT Infrastructure, the solution still relies on IT staff from these companies to manage that infrastructure and the applications installed on it. Essentially, Rackspace provides a mechanism to migrate the infrastructure and hardware of the company to the cloud; however, it does not replace the company's own IT personnel who manage that infrastructure for the users.

3.3 Competitive grid

The competitive grid provides an overview the products and services provided by i-worx and aims to provide a comparison between the company and its direct and indirect competitors. By understanding the competitors in this industry, their similarities and difference, we can get a better understanding of the state of the current competitive environment for i-worx and in the global IaaS industry. An understanding of the competitiveness of this industry is key to understanding the overall attractiveness of the IaaS segment of cloud computing. The competitive grid found in Table 2 provides an overview of the competitors identified in this section and compares the key products offerings of all of them.

Table 2 Competitive grid (created by author with data from various sources)

	multi-tenancy	disaster recovery	data security	cloud accessibility	local presence	target market	high scalability	application and user management	price
i-worx	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**SMEs**	**Yes**	**Yes**	**Average**
Competitor									
DPSCloud/GoCloud/ThinDesk	Yes	Yes	Yes	Yes	No	SMEs	Yes	Yes	Average
Managed Service Providers	No	No	No	No	Yes	SMEs	No	Yes	High
Desktone	Yes	Yes	Yes	Yes	No	Managed Service Providers	Yes	No	Average
Microsoft Office 365	No	No	No	Yes	No	SMEs	Yes	No	Low
Fusemail	No	No	No	Yes	No	SMEs	Yes	No	Average
Rackspace	Yes	Yes	Yes	Yes	No	SMEs	Yes	No	Average

4: Attractiveness of the global IaaS industry

An analysis of the attractiveness of an industry is important to understanding the overall external environment and the factors that affect the competitiveness for i-worx in this industry. This analysis as well as the competitor analysis performed in section 3 provide for a comprehensive look at the external environment facing i-worx. The attractiveness of the IaaS industry can be determined through the analysis of a number of forces that affect the profitability of this industry.

4.1 The forces that determine competitiveness

An augmented five forces analysis on the global IaaS segment provides us with a clearer understanding of the attractiveness of the external environment. A global analysis of this industry segment is required as this truly is a global industry. Technically, there is no reason why a hosted provider cannot host the IT infrastructure of clients across globe. Government regulation however, plays an important role in the attractiveness of this industry as laws and regulations in various countries regulate how sensitive data is accessed and stored. Therefore, a sixth force helps augment our five forces analysis. The sixth force added to augment the five forces framework is government regulation (Boardman, Shapiro and Vining 2004).

4.1.1 High competitive rivalry

The competitors in this industry are the IaaS and cloud infrastructure providers. These providers range from large multinationals such as Amazon Web Services (AWS) and IBM, down to smaller players or providers to niche industries. In terms of global market share of the IaaS segment, AWS is the definitive market leader, capturing 36% of global revenues. IBM and British Telecom are also major industry players. Both companies currently trail AWS in market share with each capturing 5% of the global market (Sverdiik 2013). While AWS is clearly a dominant player in the industry, the remaining 64% of market share spans across numerous providers with each capturing at most 5% of the market. The industry therefore shares a low concentration ratio, which is one indication of a highly competitive industry.

The competitive rivalry is also high for the reason that larger companies are able to leverage economies of scale to push prices down and weed out smaller competitive players. Meanwhile other competitive threats to this industry are emerging, SaaS threatens to further increase competition within this industry as software vendors are developing cloud versions of their software products, potentially diminishing the longer-term demand for IaaS products and services. As the industry is growing at a rapid rate, so is the competitive rivalry within this space, large industry players, smaller niche players, and external competitive

threats from the software vendors themselves make the competitive rivalry in this industry high.

4.1.2 Moderate to high new market entrants

Large capital investments in infrastructure and human resources should prevent some entry into the IaaS segment, however the industry is growing at a rapid pace, faster than any other segment within the cloud with an anticipated compound annual growth rate of 41.3% through 2016 (Gartner.com 2012). The projected revenue growth for this industry will entice new firms to enter the market and grab a piece of the expanding market share. Furthermore, the high capital costs required to enter this industry should reduce, as the cost of hardware infrastructure will decrease over the longer term. This will increase the potential for new market entry over time. Switching costs are relatively high however; therefore, there exists high customer lock-in once customer acquisition has taken place. Based on all of these factors, the threat of new market entrants is moderate to high. New firms should put downward pressure on prices making the industry less attractive over time.

4.1.3 Moderate to high bargaining power of buyers

The buyers in this case are the companies looking to migrate their IT infrastructure to a hosted solution. The cloud-computing model of delivery transforms IT infrastructure into a commodity like service. As with other commodities, the business model for firms therefore relies heavily on a large volume of sales, with customers being very sensitive to price, and limited differentiation between competing products. This inherently implies that margins for the industry will lower over the longer term. All of these factors add to the bargaining power of buyers, and lower the attractiveness of the industry.

On the other hand, high switching costs do exist for companies who have moved their infrastructure onto a hosted solution. The switching costs involve the installation and setup of user environments and applications on a competitor's platform. This helps to reduce the bargaining power of buyers, however the low margins, high sensitivity to prices, and limited differentiation between competing products more than offsets the high switching costs. The bargaining power of buyers for this industry is moderate to high.

4.1.4 Moderate to low bargaining power of suppliers

The suppliers to this industry represent the hardware infrastructure manufacturers, knowledge workers, and developers of software applications

used to facilitate the IaaS model. In terms of hardware infrastructure manufacturers and software companies, a number of competing firms exist which therefore limits the concentration of suppliers in this industry. This ultimately lowers the supplier power for this industry. In addition to this, the IaaS industry is a key customer to hardware infrastructure and software providers. As the IaaS industry continues to grow, the value of the industry to these suppliers will also grow, which should further reduce the power of suppliers over time.

One aspect of this industry that increases the power of suppliers slightly is that software applications, knowledge workers, and hardware infrastructure are all integral pieces required by all IaaS providers. The power of suppliers in this industry is therefore moderate to low.

4.1.5 High government regulation

Government regulation plays a significant role in this industry and primarily relates to the storing and accessibility of sensitive data on company servers. For example, the U.S. patriot act permits federal law enforcement the ability to access data stored on U.S. soil at any time (Justice n.d.). Because of this law, companies based outside of the U.S. may be reluctant to store sensitive client data in American data centres for fear that security and privacy of client data is at risk. Government regulation has an interesting effect on the attractiveness of this industry, as it provides for a competitive advantage for smaller regional

players over larger firms American firms such as Amazon AWS. Amazon AWS has made recent strides to create data centres in other parts of the world such as Australia in order to compete with the regional players within the industries there. Many firms within Australia have argued that this does not prevent the U.S. government from accessing that data even though it is stored within Australian borders (Taylor and Duckett n.d.).

In Canada and in the European Union similar laws ensure that the handling of data is in a secure manner and can be made accessible to law enforcement in cases where it is used as evidence in criminal proceedings. In Canada the regulation is handled by PIPEDA (Personal Information Protection and Electronic Documents Act), and within the European Union this regulation is called the General Data Protection Regulation (GDPR). These laws govern the accessibility and security of data handled by companies who operate out of those countries. Similar laws exist in many other countries, thereby shaping the competitiveness of this industry within each of these regions. One key differentiator between the U.S. patriot act and PIPEDA in Canada is that while PIPEDA does allow for the release of personal information for specific law enforcement purposes, the patriot act allows the government to secretly request and obtain library records for large numbers of individuals without any reason to believe they are involved in illegal activity.

Government regulation therefore increases the attractiveness of the industry for smaller regional players as the companies and clients in these markets must adhere to the laws of the countries in which they operate. However, for larger players such as Amazon AWS, these regulations reduce their competitive advantages over smaller firms in other parts of the world.

4.2 Six forces review

This six forces analysis provides us with an understanding of the attractiveness and implied profitability of the IaaS segment of cloud computing. Based on the five forces framework, low industry profits are associated with strong bargaining power of suppliers, strong bargaining power of buyers, low entry barriers, and intense industry rivalry. Given the analysis above, and not considering the sixth force of government regulation, the industry appears to be unattractive.

However, government regulation in this industry is high, which poses a threat to multinational companies but also presents a big opportunity for local players in the industry. Regulation provides smaller players a competitive advantage over their larger competitors and helps to reduce the concentration of providers within the industry, making the industry more attractive. The

government regulation aspect of this analysis is large enough to shift the attractiveness of the industry from low to **moderately attractive**.

5: Review of the i-worx strategy

In this section, we examine the corporate, implementation and marketing strategies and review the critical success factors of i-worx.

5.1 Corporate strategy

The company philosophy is “making a difference in people’s lives”, which has permeated through the company, from the solutions the offer to the level of customer service they provide to their client base. The philosophy is inherent in the company strategy, i-worx strives to make a difference in the business processes and offices of its clients by transforming IT infrastructure into highly scalable, standardized, secure, and cost effective operations. In the short term, the company is seeking to establish itself as a premium hosted service provider on the west coast of Canada. i-worx’ strategy therefore, is to deliver a solution that provides a cost efficient, easily scalable and standardized turnkey solution to a company’s IT infrastructure. Regular backups of sensitive data and data security are also benefits to the OfficeOneLive product. Despite these product features, the key to the company strategy is the development of personal relationships with its customers. Unlike other larger firms such as Amazon or Rackspace, iworx works closely with their clients to ensure the highest level of

service and customer satisfaction. As customer support and trust are paramount in this industry, the company strategy is the development of its brand, such that “i-worx” is synonymous with outstanding customers service and customer support.

Another component of the company strategy is innovation. The company currently spends 5 to 10% of revenues on the research and development of new products, which complement their existing flagship product OfficeOneLive. While the company focus is on the OfficeOneLive and OfficeOneMail solution, i-worx is working to roll out additional products such as OfficeOneDrive, and OfficeOneApps to supplement their existing products, and boost revenues from their existing and newer client base.

COMING in 2013:

OfficeOneDrive – a file share offering similar to drop box (Expected September 2013)

OfficeOneApps – our application-streaming offering (Expected December 2013)

COMING in 2014:

OfficeOneConnect – a unified communication offering – (Expected first quarter 2014)

From an industry penetration perspective, the company has had good success in the legal industry, however is also targeting other industries such as manufacturing and engineering, accounting Firms, professional service firms, and many others.

5.2 Implementation strategy

i-worx' strategy currently revolves around its flagship product OfficeOneLive. OfficeOneLive enables the outsourcing of a company's IT infrastructure to i-worx through a hosted desktop solution. The company typically targets small to medium sized businesses, finding ways to move their IT infrastructure onto the OfficeOneLive cloud platform. I-worx works with their clients to understand their computing needs. This involves understanding the required set of services and applications to be installed how users will work with them (see Appendix D). During new implementations, an assigned dedicated project team works with the client to determine the computing needs of all the users who will be accessing desktops via OfficeOneLive. The dedicated project team will also work with the customer to determine which users will be accessing desktops on OfficeOneLive and what applications they require for their day-to-day tasks. I-worx also performs an assessment of what functions the company requires (storage, printing, email services, backups, shared calendars).

5.3 Implementation example – Alpine Credits

One example of an i-worx implementation at Alpine Credits was performed in May of 2011. Alpine Credits is a financial services firm with offices throughout Canada. With its IT infrastructure located on site and managed by company staff, Alpine credits found their IT infrastructure to be increasingly expensive and becoming harder and harder to manage (i-worx 2013).

Alpine Credits opted to implement i-worx' OfficeOneDesktop cloud services and virtual desktop solution. i-worx quickly put the following in place:

- Virtual servers in secure data centres to host Alpine Credits' corporate data and applications.
- Virtual desktops that provide employee access to data and applications remotely from any device.
- Standardized software programs and versions.
- Multiple layers of physical and software security to protect data and business applications at i-worx secure data centres.
- Business continuity and disaster planning.
- Maintenance and support pricing through a fixed monthly fee.

The results of the implementation were:

- Dramatically improved infrastructure performance and uptime.

- Simplified IT tasks and fixed IT costs by integrating computing and centralized management.
- Improved productivity as employee's access data and business applications from anywhere, anytime.
- Improved collaboration with standardized software and easy sharing of documents, spreadsheets, presentations and faxes.
- Scalability as users added and removed with ease. Alpine Credits pays only for what they use.
- Controlled costs with IT maintenance and support included in one fixed monthly fee.
- Business continuity and peace of mind in the event of a disaster.
- Significant cost savings.

5.4 Costs to outsourcing

i-worx' model works for companies such as Alpine Credits who are seeking to reduce the production costs associated with managing their own IT infrastructure. There are costs however associated to outsourcing. Bargaining costs and opportunism costs can influence the decision making process for firms deciding whether to outsource. Bargaining costs include 1) the costs involved in the negotiation of contract details 2) the costs of changes to the contract during unforeseen circumstances 3) the costs of monitoring performance by the contractor 4) the costs of any disputes that may arise (Vining and Globerman 1999). Opportunism costs refer to costs incurred when the contractor is acting in

their own self-interest (Vining and Globerman 1999) in bad faith. An example of opportunism is a hold-up, when the contractor attempts to capitalize on the sunk of the investment made by the contractee. Firms seeking to outsource their infrastructure will only do so if the cost savings of the production costs are greater than the bargaining costs and opportunism costs related to outsourcing. Given i-worx' proven record of accomplishment with their customers, the opportunism costs should be minimal which makes them favourable to companies such as Alpine Credits.

5.5 Marketing strategy

The marketing strategy of a company is integral to the company's future growth and profitability. I-worx' main customer base consists of professional services firms, with a large number of these firms in the legal or accounting industry. The company typically targets small to medium sized businesses with anywhere from 10 to 100 users. Because of this, the company marketing strategy revolves around being present and involved in associations, and participating, presenting, and sponsoring events within these associations. For example, the company is an active member in the Trial Lawyers Association of B.C. and often advertises in 'The Verdict', a publication for members of the Trial Lawyers Association of British Columbia. The company has also written articles for the Toronto Legal Association. I-worx has also presented at many conferences in the past, most recently, the company presented its OfficeOneLive

products at the Pacific Legal Tech Conference 2011 in Vancouver, BC. As well, like all other companies, i-worx receives a lot of its new business from referrals and word of mouth, underlying again the importance of providing good customer service and value to its existing client base. In terms of improving their marketing strategy, the company aims to improve its use of social media to help the promotion of its products and services. Most recently, the company redesigned their website (www.i-worx.ca); the website integrates with popular social media engines such as Twitter and Linked-In by allowing visitors the ability to follow the company on these websites.

5.6 Critical success factors

A number of key factors have lead company growth and to the success of i-worx today. Firstly, the company has identified and seized a niche market in the local legal industry of British Columbia. One key contributor to this success has been the marketing campaigns within the legal associations of BC and within various publications distributed to members of these legal associations. As a result, i-worx has a major presence within the legal industry of BC with over 20 clients within the legal industry. i-worx' local presence in B.C. may have also contributed to their success within this industry. Data security is of huge importance within the legal industry, which explains why firms in this space are seeking to move their data out of their local offices and into secure data centres within the same geographical and political region. In addition to this, small to medium firms within the legal industry are likely not to pay for the cost of

managing data servers, computer networks, and other IT infrastructure. The combination of these two properties of the legal industry made the industry ripe for penetration by a company such as i-worx, which provides viable and secure option for the outsourcing of IT infrastructure and management. Another contributor to i-worx' success has been its customer service and the strong relationships the company has built with its competitors. This has helped i-worx develop a brand and reputation within the industries that it serves and has ultimately led to referrals and new customer acquisitions over the past number of years. Lastly, the final key contributor to i-worx' success is that the technology works. The solution does provide companies improved IT performance, easy scalability, reliability, and predictable costs for their IT operations.

6: Diagnosis of the i-worx competitive advantage

Through careful analysis of company strategy, the external environment, and its competitors, we have identified a number of strengths; weaknesses; opportunities and threats (SWOT) for i-worx. The SWOT analysis helps to diagnose the competitive advantage for i-worx, and understand what the company can expect on the horizon.

6.1 i-worx SWOT

Table 3 Strengths, weaknesses, opportunities and threats (created by author with data from i-worx)

Strengths	Weaknesses
Strong Customer Relationships Industry Reputation Local presence Infrastructure management that works Growing Industry Constantly Innovating Successful marketing to legal sector	Lack of marketing success to other industries Lack of presence in other parts of North America Small in size (limited budget)
Opportunities	**Threats**
Partnerships with Managed Service Providers Opportunities in other industries Partnerships with Software Vendors Canadian regulatory environment	Increased threat of new players SaaS may diminish need for IaaS Managed Service Providers moving to the cloud Lower industry margins

6.1.1 Strengths

As previously mentioned the critical factors for success the company has strong relationships with its customers, a solid reputation, and local presence in

British Columbia. In addition to this their solution works, and does provide many benefits to companies seeking to outsource their IT infrastructure and management. The company is in a space that is growing at a rapid pace (as mentioned in the external analysis, the IaaS space will achieve a compound annual growth rate of 41.3% through 2016). I-worx is also constantly innovating, and finding new ways to provide value to their customers. The upcoming rollout of products such as OfficeOneDrive is one example of this type of innovation.

6.1.2 Weaknesses

I-worx has had limited success in some key industries where it could perform better. I-worx has identified accounting, manufacturing, and professional service industries as targets for future growth. As these industries should have similar needs for data security and outsourcing of their IT infrastructure, the key to improve on this area is to replicate the marketing success that i-worx had in the legal industry, in these target industries. The company has also a limited presence outside of British Columbia, although there have been recent measures and marketing initiatives targeting Alberta, specifically the Calgary area. Finally, the company is relatively small with only 15 employees (and 1.6 million dollars CAD in annual revenues), which limits company spend on R&D, Marketing and other initiatives.

6.1.3 Opportunities

There exists two main opportunities that have been identified and which will be discussed in the strategic analysis section of this paper. These are: i) the potential for partnerships with Managed Service Providers, ii) The potential for growth in other industries outside of the legal industry. Expanded analysis on these opportunities is in the following sections of this paper.

6.1.4 Threats

As new cloud technologies emerge, and the industry continues to mature, new threats may emerge that could hurt the company's competitive advantage. The first is the emergence of large industry players such as Microsoft who are beginning to offer cloud versions of their software products to their users. In the case of Microsoft Office 365, some of the software offered in this suite competes directly with OfficeOneMail and OfficeOneDrive. As the IaaS industry continues to realize growth, there is also the threat of new market entrants who replicate i-worx product offerings and offer them at a lower price. Finally, there is also the threat of Managed Service Providers finding new ways to offer their existing customers cloud solutions. Companies like Desktone and Rackspace provide cloud infrastructure, is managed by MSPs, therefore this does pose a threat for i-worx and the advantages they provide over the solutions offered by traditional managed service providers.

6.2 How i-worx creates value

i-worx creates value for its customers by providing a mechanism for outsourcing their IT infrastructure. The hosted nature of their solution allows infrastructure to be located offsite at i-worx data centres as opposed on-site. The solution reduces costs for companies who no longer require purchasing hardware and hiring resources to manage their IT infrastructure. The i-worx solution also allows for predictable IT costs, scalability, added security, and easy accessibility to corporate data from a multitude of access methods such as PC's, tablets, and other mobile devices.

6.3 Diagnosis of i-worx competitive advantage

i-worx' competitive advantage is due to the strong relationships the company builds with its clients. Unlike other IaaS providers, i-worx does not simply provide virtualized infrastructure over the cloud, the company also provides professional services to work with the clients during implementations to ensure the infrastructure is successfully migrated onto i-worx. As well, the support personnel at i-worx are available to diagnose and resolve issues that occur once their customers are live using their product. I-worx strives to provide the quality of service offered by a traditional managed service provider while offering a hosted solution with all of the benefits of a cloud solution. The company also has a competitive advantage over other global IaaS providers as

its data centres are located within Canadian borders and therefore are subject to Canadian data security laws. As mentioned in other sections of this paper, this makes i-worx appealing to prospective clients who also reside within Canada.

7: Current situation facing i-worx

This chapter reviews the current position of i-worx within the Western Canadian industry. It will also serve to highlight some opportunities for growth.

7.1 The state of i-worx today

I-worx has established and is continuing to establish itself as a premium provider of cloud computing solutions targeting small and medium sized businesses within Western Canada. The company has had particular success within the legal industry, with 20 legal offices subscribing to their services. I-worx is certainly within an industry of increasing demand.

The cloud computing space as whole is growing at a tremendous rate, with expected 150.1 billion dollars in revenue forecasted for 2013. Within the cloud computing space, the IaaS segment expects to achieve the highest growth rate of 41.3% throughout 2016 (Gartner.com 2012) . Given these lofty growth rates and forecasted revenue, much competition exists today with even more coming in the near future. The industry is moving quickly, newer competitive threats are emerging, while the technologies at play are progressing themselves at a rapid pace. As such, I-worx will need to work hard to keep up with all of the technological trends within the industry and keep a close eye on the emerging competitive threats.

The companies' short-term goal is to become recognized as a premium hosted service provider by clients, prospective clients and competitors. While the company has taken great strides and increased its customer base to over 68 customers, the key to gaining a larger presence in this segment is to increase their client and user base. With a 2.3% churn rate coupled with high switching costs for their clients , and given the subscription model of the company's products and services, the acquisition of customers will increase revenues and profits for years to come, and will help to cement the companies foothold as a major player in the Canadian IaaS industry.

Because revenues generate through user subscriptions, i-worx should invest in strategies that provide the highest return of users, but also consider strategic clients that may help the company penetrate different industry segments. I-worx must continue to grow and expand its presence in the industry, a failure to do so could result in a weakening of their foothold in the industry, a reduction in their growth rate, and in the longer term could potentially result in a reduction of their existing client base. In addition to this, the threat of larger competitors using high economies of scale to reduce prices and threaten industry margins is real. This should provide further incentive for the company to establish its foothold in the Canadian market by locking in customers as the high switching costs for these clients will help to deter them from moving their

infrastructure outside of i-worx. This will help to solidify the long-term earnings potential of the company.

7.2 The opportunities

The threats and opportunities facing i-worx are very real; i-worx understands this and has identified two new market opportunities, which could help the company grow its client and user base and meet other strategic objectives. The goal of the analysis in the following two sections is to evaluate these market opportunities and to understand if they provide a good capability fit for the company. Given the relatively small size of the company (with 15 employees in 1.6 million in annual revenues), the premise is that only one of these opportunities can be targeted at once. This will form the basis for the strategic analysis and recommendation performed in section 10 below.

8: Potential target markets

The purpose of this section is to identify potential target markets that provide the best opportunity for penetration and the best overall capability fit for the company. Target markets exist in new geographical locations as well as new industry segments.

8.1 Analysis of existing customer base by industry

While i-worx has had good success within the legal industry in British Columbia, the industry presents a relatively low number of users per client. As per i-worx implementation strategy, a project team is involved in every new implementation. The implementations can take up to a month and involve dedicated staff for each implementation during this time. An estimate as to the average cost to i-worx for an implementation is therefore between five and ten thousand dollars. Given that the subscription revenue model is on a per user basis, the legal industry is somewhat unattractive from a revenue potential perspective with an average of 13.21 users per client. Table 4 provides a breakdown of the company's existing client base and number of users per client. This data represents OfficeOneLive customers only.

Table 4 Wholesale and distribution Revenues

	Users	Clients	Avg Users
Wholesale and distribution	99	2	49.50
Retail	47	1	47.00
Mining	26	1	26.00
Business Consultants\Advisors	25	1	25.00
Other Professional Services	67	3	22.33
Construction	41	2	20.50
Legal	251	19	13.21
Accounting\Bookkeepers	13	1	13.00
Manufacturing and Engineering	139	11	12.64
Recruitment agents	9	2	4.50
Mortgage Brokers	4	2	2.00
Publishing companies	3	0	N/A

(i-worx 2013)

8.2 New target industry customer segments

Although the sample sizes are low, table 4 identifies that the industries with the highest users per client are Wholesale and Distribution, Retail, and Mining. The average users per client for these three industries are approximately 41 users per client, more than double the average for the legal industry. The analysis performed in this section will presume that i-worx should consider targeting industries with the highest potential return of users per client. Therefore, further analysis on the mining, retail, and wholesale industries will identify which of these industries provide the best opportunity for i-worx.

8.2.1 Mining

The most attractive provinces for the mining industries are Ontario, Saskatchewan and British Columbia, based on statistics of the value of mineral production seen below. Of particular interest is the province of Saskatchewan with 210% growth from 2000 to 2010, and sizeable production of over 7 billion dollars in 2010, just shy of the 7.6 billion produced in Ontario, and slightly higher than the amount produced in British Columbia (Mining Association of Canada 2011) . The growth in the mining industry in Saskatchewan is due to a boom in Potash and Uranium production within this province.

Table 5 Mining statistics in Canada

	2000	**2010**	**Growth**
Ontario	5,711,381	7,691,650	34.67%
Saskatchewan	2,282,648	7,083,980	210.34%
British Columbia	2,891,467	7,073,759	144.64%
Québec	3,653,206	6,770,478	85.33%
Newfoundland and Labrador	967,121	4,584,040	373.99%
Alberta	1,064,411	2,347,295	120.53%
Northwest Territories	681,743	2,032,724	198.17%
Manitoba	1,068,806	1,663,506	55.64%
New Brunswick	772,546	1,154,581	49.45%
Nunavut	384,597	305,098	-20.67%
Nova Scotia	295,249	294,167	-0.37%
Yukon	56,264	284,055	404.86%
Prince Edward Island	5,482	3,437	-37.30%
Total (Canada)	19,834,921	41,288,770	108.16%

(Mining Association of Canada 2011)

8.2.2 Retail

The two largest retail industries belong to Ontario and Quebec. Not surprisingly, these two provinces are also the most heavily populated, with major cities such as Montreal and Toronto accounting for the lion share of revenues between these provinces. One province of notice is Alberta with nearly 67 billion in annual revenues generated from retail, over 10% higher than British Columbia. This is especially noticeable given the population of Alberta is roughly 18% lower than that of B.C. (3.6 million vs. 4.4 million) (Statistics Canada 2011). This noticeable discrepancy is likely the result of a higher median income in Alberta than in British Columbia (35,770 vs. 28,190) (Statistics Canada 2012) . The proximity of Alberta to British Columbia and the total size of both markets make this industry attractive. The total annual revenues for the retail industry for both provinces are over 120 billion dollars, exceeding that of Quebec. This makes the retail industry attractive given the proximity of Alberta to B.C. and while combined revenues of both of these provinces exceeds 120 million dollars.

Table 6 Retail annual revenues

Retail annual revenues (in thousands)

	2011
Ontario	169,414,364
Québec	105,373,515
Alberta	66,535,322
British Columbia	60,946,773
Saskatchewan	16,964,600
Manitoba	16,861,108
Nova Scotia	13,170,371
New Brunswick	11,204,835
Newfoundland and Labrador	8,353,116
Prince Edward Island	1,902,608
Northwest Territories	764,815
Yukon	689,482
Nunavut	376,172
Total (Canada)	472,557,081

(Statistics Canada 2012)

8.2.3 Wholesale and distribution

The wholesale and distribution industry provides goods to retailers, commercial and institutional users, and other wholesalers. The wholesale and distribution industry is attractive due to size of its revenues. Revenues for this industry in all of Canada are almost double the revenues for the retail industry. Once again, the size of the industry in Ontario makes this region attractive. Revenues in Alberta however, are a sizeable 200 billion (Statistics Canada 2012), making this industry attractive based on the size of revenues and the proximity of Alberta to B.C.

Table 7 Wholesale industry revenues

Wholesale industry revenues (in thousands)

	2011
Ontario	301,803,729
Alberta	212,101,437
Québec	146,265,072
British Columbia	63,403,433
New Brunswick	32,229,338
Saskatchewan	30,312,992
Manitoba	28,056,082
Nova Scotia	9,445,028
Newfoundland and Labrador	5,260,374
Prince Edward Island	660,662
Northwest Territories	545,388
Yukon	253,114
Nunavut	108,112
Total (Canada)	830,444,761

(Statistics Canada 2012)

8.3 Most attractive industries

The purpose of this analysis was to identify industries with which i-worx has prior experience, and which provide the highest number of users per client. Because of the scalable nature of the company's products, and based on the per customer revenue model of the company, the highest return on investment in terms of customer acquisition will be to acquire clients who provide the highest number of users per implementation. This analysis suggests also that two of three of these target industries are also very large in close proximity markets such as B.C. and Alberta. This makes the two industries Wholesale and Distribution and Retail both attractive for i-worx. Both industries provide the following:

1. Familiarity with industry
2. High number of average users per client
3. Sizeable revenues within Western Canada (Alberta and B.C.)

While both these industries remain attractive for these reasons, it may not be feasible for the company to invest resources towards penetrating both industries at the same time. The wholesale and distribution industry appears to be the most attractive if we consider total revenues only, however in order to complete this analysis, we must analyse the capability fit of both industries to i-worx current set of products.

8.4 Analysis of capability fit

An analysis of the capability fit of these two industries related to i-worx products or services involves an understanding of the types of software applications that predominate both of these industries. For the retail industry, this is POS (Point of Sale) software. Point of sale software is when a retail transaction is completed. Retail merchants use point of sale software to complete transactions with their customers, and provide for more efficient inventory management systems. Therefore, analysing the capability fit for the retail industry and i-worx translates to the capability fit of POS software systems with i-worx existing product line.

Within Wholesale and Distribution industry, ERP software systems are most prevalent. Inventory management, warehouse management, purchasing, and financial management are all common uses for ERP systems within this industry.

8.4.1 Capability fit of the retail Industry

The retail space is attractive firstly because of the high average number of users per client. The accessibility of a cloud solution appeals to clients within the retail industry as the POS Software systems would be accessible to all of their retail locations over the web, without the need for dedicated IT staff in each of these locations. Additionally, the scalability of cloud solutions is attractive, as the cost of adding or removing new retail locations is minimal from a IT perspective. Although a cloud solution such as OfficeOneLive may be attractive to retailers, the retail industry may not be the best fit for i-worx. The retail space is a very broad industry. Restaurants, Coffee Shops, and Clothing stores all pertain to this industry. The diversity of this industry poses a challenge for i-worx, as it would mean i-worx staff would need to get familiar with the installation and configuration of a variety of POS software systems that tailor to each of these specific industries. Additionally, POS systems often integrate with external hardware such as bar code readers, card readers, and receipt printers, which adds to the complexity and cost of successful implementations with a company in the retail

space. Because of these complexities, the capability fit of the retail space is moderate to low for i-worx.

8.4.2 Capability fit of the wholesale and distribution industry

The size of the wholesale and distribution industry makes it attractive for i-worx, the company also has two wholesale and distribution companies currently using the OfficeOneLive product. Cloud solutions like OfficeOneLive provide remote and online accessibility for Warehouse and Distribution companies to their existing ERP suites. This can help reduce costs and improve efficiencies as IT infrastructure and support staff is not required to maintain IT systems in the various warehouses or distribution centres for these companies. In terms of a capability fit for i-worx however, the company can leverage its prior experience with companies in this industry to help market their OfficeOneLive products to other warehouse and distribution companies in Western Canada. I-worx currently has seven clients using ERP packages, all of them within the Warehouse and Distribution industry. Some of the most widely used ERP packages such as Great Plains, Syspro, and others were implemented on OfficeOneLive. In terms of a capability, the warehouse and distribution industry provides good fit for i-worx, i-worx will be able to market their solutions easier to companies in this space given their existing client base and the implementations should be similar to prior OfficeOneLive implementations in this industry and in others.

8.5 Potential target industry segments conclusion

Upon this analysis, it appears the **Wholesale and Distribution industry** provides the highest potential for return for i-worx. The average number of users per client within this industry exceeds 40 users, more than double the average number of users for the legal industry. The industry size is also very attractive with over 830 billion dollars in revenues for all of Canada. The revenues of this industry in markets within close proximity of i-worx is however the most aspect of this industry. The size of the industry within these two western Canadian provinces is roughly 280 million, almost 34% of revenues for all of Canada based on 2011 industry data (Statistics Canada 2012). The capability fit is also good for i-worx given the companies prior implementations in this industry and with other companies implementing ERP software suites on the OfficeOneLive product.

9: Potential partnerships – Managed service providers

The purpose of this section is to analyse the opportunity of building partnerships with existing Managed Service Providers. The opportunity would allow i-worx to market existing products and services to MSPs as a platform that will enable their client base to move their infrastructure on to the cloud.

9.1 The partnership opportunity

Cloud technologies are gaining serious traction as they offer a variety of benefits to companies seeking to migrate their IT infrastructure to the cloud. In addition to this, the widespread adoption of mobile devices has necessitated a need for accessibility of corporate data through a mobile device. The move towards the cloud facilitates and meets this need. The theory behind this strategy is that a high number of small to medium sized businesses currently outsource the management of their IT infrastructure to traditional Managed Service Providers. The needs of those companies are changing, and the clients of these MSPs are seeking ways to migrate to the cloud as way to meet those needs. I-worx is therefore considering providing the OfficeOneLive as a platform for MSPs who currently manage IT operations of their customers in a traditional

fashion (on-site). In this way, the MSP would act as a reseller of i-worx' cloud infrastructure, and would enable the MSP to provide a cloud offering to their customers, and provide i-worx a revenue stream with a much lower cost of acquisition per user. The lower costs are because the relationships between the MSPs and their clients have been pre-established, while the setup and management of the infrastructure handled by the MSP. Industry growth forecasts also make this opportunity attractive, as some analysts are predicting that in the coming years, managed hosting will grow at 20-27% while revenues in the cloud computing space will increase by more than 50% per year (Butler 2012).

Under this model, the MSP is very familiar with the existing infrastructure of their clients. The managed service provider would therefore play a big role with the installation of the applications and configurations of the user environments, reducing the overall costs to i-worx per implementation. As the partnership would involve some sort of revenue sharing, I-Worx anticipates gross margins of around 27%, much lower than existing margins of near 40%. In terms of competition, previously mentioned competitors such as Desktone and Rackspace provide cloud infrastructure in this manner, they are larger companies that are able to leverage their economies of scale to push prices down. The one key differentiator between these companies and i-worx however, is that the data, which resides on i-worx servers, resides in Canada. I-worx should recognize this

as a competitive advantage and if pursuing this strategy should target MSPs within British Columbia and other parts of Canada.

9.2 Evaluation of partnering with MSPs

In order to evaluate the size of this opportunity, a survey was conducted to existing managed service providers in B.C. and Alberta to determine the demand and potential of this option.

The following questions make up the survey conducted:

1. How many clients do you currently have? (range)
2. On average, how many users do each of your clients have?
3. How would you describe the demand for a cloud solution by your clients (High, Medium, and Low)?
4. Do you currently provide a cloud solution?
5. Would you consider partnering with (or with another) IaaS provider for hosting of your clients infrastructure on the c loud?

The results of this survey are as follows:

MSP	# of Clients	Avg User/Client	Demand for Cloud	Cloud Solution Y/N	Consider partnership Y/N
Fully Managed	About 100	50	Medium	Yes	Possibly
Net Digix	Over 100	50	High	Yes	No
Global Edge	40	10	Low, but growing, particularly for smaller clients	Yes but limited	Possibly
Matrix Group	40	30	Medium, depends on how much it is marketed by us	Yes, partial	Yes

9.2.1 Analysis of survey results

Overall, the survey results were positive as three out of the four companies interviewed would consider a partnership with an IaaS provider. These companies also support between 40 and 100 clients with each of those clients having between 10 and 50 users each. The survey also re-affirms that the demand for the cloud is good and that Managed Service Providers anticipate even further demand for cloud solutions going forward. The results also prove that MSPs typically have a large client and user base established already, thereby reducing the cost of acquisition should i-worx forge partnerships with these customers as there are a large number of relationships which have already been pre-established. Of special note, one of the service providers mentioned that they have had prior discussions with i-worx regarding a partnership, however they felt that the price i-worx was charging for their services was too high and that a partnership did not make business sense for them at this current point in time.

9.2.2 Capability fit of partnering with MSPs

In terms of a capability fit for I-worx, we will review the hardware infrastructure needs, software needs, and how this model would deviate from the current implementation process. From a hardware perspective, the model i-worx' existing infrastructure is already in place to support this kind of a model. i-worx estimates that its current hardware infrastructure can support an additional 1000 users before further upgrades and purchases would be necessary. For these implementations however, i-worx would need to work with the managed service providers during the installation process to ensure the applications being installed on I-worx' infrastructure has minimal impact on i-worx existing client base. This model would also mean that I-worx staff would need to be involved with technical staff members such as the network administrators of the MSP Companies, which may make the implementations smoother to some degree as less training and handholding of the clients would be required post-implementation. Overall, the capability fit of this option is good. The hardware infrastructure is already in place, and the implementation effort should be minimal, as the MSP would absorb much of the implementation effort. One potential cost would be the creation or implementation of software to allow MSPs to setup and manage these implementations with minimal involvement from i-worx. Although this endeavour could be costly, it is not initially necessary, should only be considered if the reseller model gains momentum, and can be justified by reduced long-term implementation costs for i-worx.

9.2.3 Potential partnership MSPs - conclusion:

Overall, the option of partnering with managed service providers appears to be a good capability fit for the company and would make the i-worx platform available to a large user base once each partnership is formed. This should reduce the cost of acquiring customers, as there are virtually no marketing costs associated with the acquisition. Margins should reduce to an estimated 27% (down from 40% for i-worx acquired customers), however the opportunity does present a good method to acquire a large user base in a short amount of time given the large pre-established user bases of the MSPs. The results of the survey are also very positive, there does appear to be medium to high demand for cloud solutions and the MSPs are willing to partner with IaaS providers however the responses of one of the MSPs suggested that MSPs are very sensitive to price. The price should be negotiated with each MSP such that the price to the MSP makes business sense for them while providing a healthy margin for i-worx.

10: Strategic analysis and recommendation for i-worx

This analysis bases evaluation on qualitative and quantitative measures and an understanding of the corporate priorities for i-worx. Based on feedback from i-worx senior management, a table of priorities with relative weights appropriate to i-worx is below:

Table 8 i-worx strategic goals

Priority	Weight
User Acquisition	50%
Increase Profitability	25%
Operational Efficiency	15%
Enhance Client Care Program	10%

10.1 Strategic options

Based on the analysis performed in section 6, the following options are analysed and scored against the priorities identified above. The options are scored on a scale of 1 to 10 with 10 being the highest possible score.

10.1.1 Option 1 – Targeting the wholesale and distribution Industry

Based on the analysis performed in section 6.2, one potential option for i-worx is to target clients in the wholesale and distribution space (initially within Western Canada and moving into eastern Canada over the longer term). The option of targeting this industry scored the following:

Priority	Score	Weighted Score
User Acquisition	6	3
Increase Profitability	7	1.75
Operational Efficiency	8	1.2
Enhance Client Care Program	8	0.8
	Total	**6.75**

While the option of moving into new industries and regions does provide opportunity for increased user acquisition, the cost of acquisition per user remains relatively similar to what it is today. This is because the revenues associated with the increased average number of users per client are offset by the cost of new marketing campaigns geared towards companies within this sector and within other regions. Operational efficiency and enhanced client care should improve.

From an operational perspective, the implementation approach will likely remain the same; this will allow i-worx to improve and refine their existing client care processes and implementation methodologies.

From a profitability perspective, gross margins should remain intact initially; however, over the longer term the margins should expand as the number of users per client has increased while the infrastructure costs to support those users will be comparable to other clients with fewer users. Given the weighting provided by i-worx for each of these priorities, the final score for this option is 6.75 (6*0.5 + 7*0.25 + 8*0.15 + 8*0.10).

10.1.2 Option 2 – Partnering with MSPs

The option of partnering with managed service providers as outlined in the previous section scored against these priorities as follows:

Priority	Score	Weighted Score
User Acquisition	9	4.5
Increase Profitability	7	1.75
Operational Efficiency	6	0.9
Enhance Client Care Program	6	0.6
	Total	**7.75**

User acquisition achieved a score of nine for this option as the managed service providers offer instant access to a user base of approximately 70 users per service provider. While a partnership with a managed service provider does not mean that all users will convert to i-worx infrastructure overnight, it does open up the possibility for these users to move to the i-worx hosted solution over the longer term. The cost of acquiring users will remain low as with the reseller model the costs share amongst the managed service provider and i-worx. Profitability rates as a seven. While the opportunity to acquire a high number of users at minimal cost is attractive, the company can expect that the margins will

reduce to approximately 27%; that reduction is a result of the shared revenue model between the MSP and i-worx. Additionally, as this is a new implementation model for i-worx, implementation staff will need to work differently and develop newer methods for working with MSPs as opposed to with the clients directly, and this will come at a cost to operational efficiency and customer care, at least in the short term after this endeavour is undertaken. Both the operational efficiency, and enhance client care program priorities for this option were scored as a six. Overall this option scored a **7.75** (9*0.5 + 7*0.25 + 6*0.15 + 6*0.10).

10.1.3 Option 3 – Do nothing

Assuming i-worx neither pursues the Wholesale and Distribution sector or partnerships with MSPs, the evaluation of this strategy based on the priorities above are as follows:

Priority	Score	Weighted Score
User Acquisition	4	2
Increase Profitability	4	1

Operational Efficiency	10	1.5
Enhance Client Care Program	10	1
	Total	**5.5**

Pursuing neither of these options would likely allow the company to focus on increasing the operational efficiency of their implementation methodologies as well as enhancing their client care program. Assuming market demand is constant, a conservative estimate would be that the company would acquire clients and users at a similar pace as the past few years (average of about 12 new clients per year). With the current model, profitability is highly correlated with user acquisition, and therefore both of these priorities receive a score of four out of ten. The overall score for this option is **5.5** (4*0.5 + 4*0.25 + 10*0.15 + 10*0.10).

10.2 Analysis of strategic options

Based on the priorities as outlined by i-worx and their relative weights, the analysis and strategic recommendation will require a qualitative and quantitative analysis, as well as a review the potential risks involved.

10.2.1 Quantitative analysis

Based on the quantitative analysis performed with the scorecard method in section 7.1, the third option of partnering with MSPs provides the highest overall score of 7.75 and is therefore the recommended option based on quantitative analysis only. This option also scores the highest on the two priorities that have the highest weighting according to i-worx. As this would be a new approach and strategy for i-worx, this strategy is comes at a cost to the improvement of operational efficiencies and client care program.

10.2.2 Qualitative analysis

Qualitatively speaking the option of doing nothing should provide steady growth; however, it will likely not allow the company to come close to their growth targets as set out in the WoW 2015. Furthermore, as this space is rapidly expanding, the company should also strive to increase in size in order to keep up with industry growth, maintain is foothold in the industry and become a known as a premium hosted provider in Western Canada. In order for the company to grow at the desired rate, the company must consider either one of these options, and the option that provides the highest likely potential number of users and profitability is that of partnering with MSPs. This option provides the company another potential revenue stream, and allows for a higher potential of new users

with lower costs of acquiring this user base. An added benefit of this option is that the MSP with which they partner are likely to have exposure to a number of various industries and companies, and therefore this would indirectly provide exposure to the company in these other industries and regions. This has a compounding effect as it better positions the company going forward should it decide to market itself in other industries and regions sometime farther into the future. The third option therefore, provides the best alternative from a qualitative perspective also.

10.2.3 Risks

As both the quantitative and qualitative analysis suggests that the third option is most favourable, an analysis of the risks is valuable when assessing this option. The first risk is that MSPs will provide hosted solutions to their clients using services from other IaaS providers such as Amazon Web Services, Rackspace or Desktone. These companies can leverage huge economies of scale and push prices down, providing an attractive option for MSPs seeking options for hosted infrastructure. i-worx will need to monitor the pricing for these companies to ensure their options remain competitive. The company should also leverage the local presence of their data centres and target MSPs within Canada whose clients have sensitivity to storing their data outside of the country. The second risk is that software vendors themselves will offer cloud solutions using

an SaaS model thereby reducing demand for products and services by hosted service providers. As Microsoft Office 365 is a good example of the reality of this threat, current industry forecasts have the IaaS sector growing at 41.3% through 2016 (Gartner.com 2012), which represents the fastest growing segment of the cloud computing space. I-worx should continue to monitor industry trends and closely monitor the development efforts of the software vendors for the software applications used by their clients. There is also the potential that this threat may present itself as an opportunity to help companies migrate their existing IT systems to SaaS cloud solutions at some point in the future. A final risk is that OfficeOneLive will not meet the requirements of MSPs, thereby making MSPs reluctant to migrate their client base to the OfficeOneLive product. I-worx will need to work closely with their potential partners to ensure these requirements are met, this may involve the development of some enhancements to the current OfficeOneLive product.

10.2.4 Final conclusion

Based on the quantitative and qualitative analysis performed of all strategic options, i-worx should move forward and strive to build partnerships with existing managed service providers. The growth of the cloud and the growth in demand for managed services is hard to ignore, and this new model represents an opportunity to increase their user base and long term profits with minimal costs of acquisition per user. The opportunity will also indirectly provide

exposure for i-worx into various industries and regions based on the clients gained through these partnerships. This will help to better position the company should it decide to pursue new industries and markets in the near future.

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12: Appendices

12.1 Appendix A – Sales pillars

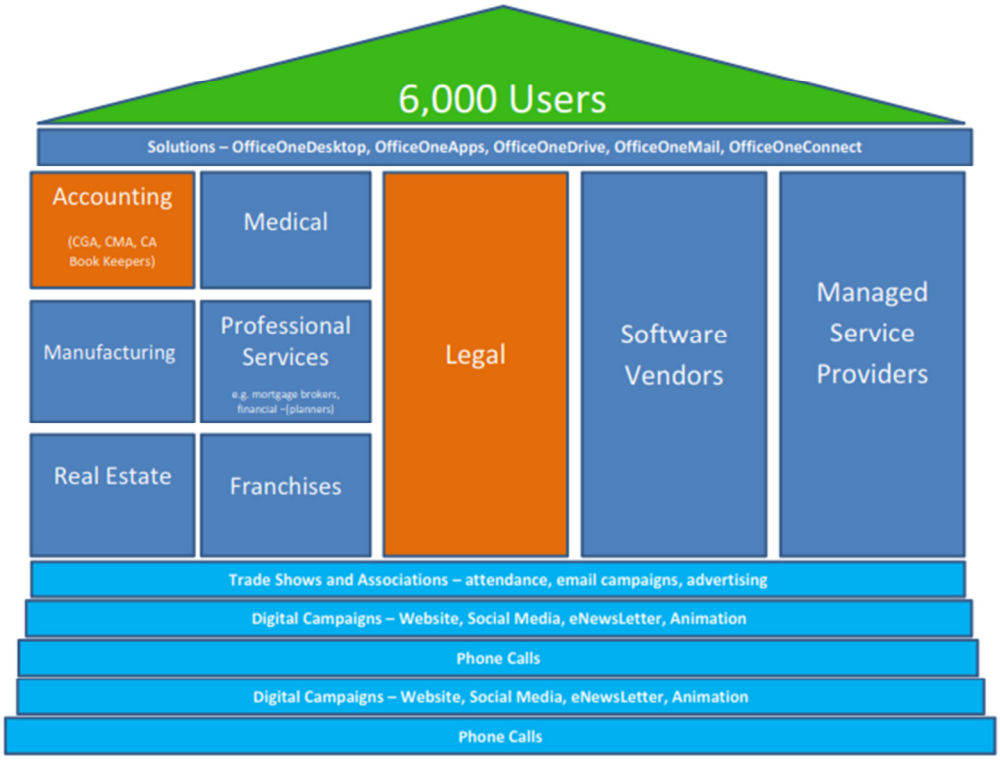

Figure 4 Sales pillars (source i-worx)

12.2 Appendix B – OfficeOneLive brochure

OOLDataSheet2013.pdf

12.3 Appendix C – i-worx WoW 2015

Window of the World (WOW) 2015

It's that time again where we project what i-worx is going to look like in 3 years. Before pursuing our future state it is worth taking a moment to reflect on where i-worx has come from.

i-worx started in 2003 with the intention of providing innovative solutions with exceptional service. Almost 10 years later we have moved from traditional on premise solutions to hosted Desktops in data centres. Today the Hosted Solutions are supported by an incredible caring team. Our office space reflects who we are and striving for excellence. We have continued to grow our client base and our team to support them.

Looking back dreams do come true and the bigger you dream the bigger the reward – with that in mind let's see what i-worx will look like by December 2015.

Our mission, our vision, our purpose – the journey we're on?

The purpose of making a difference in people's lives is what we live for as a company and what makes us unique; whether it be for our clients or our team, prospective clients or vendors, our families or strangers we meet. As a team we strive to achieve this every minute, every hour, every day, every week and for years to come. Our success as a company and individuals is measured by the difference we make. Hope you are holding on as it's going to be an amazing journey and making a difference in shaping the world we live in.

The Landscape is changing– Solutions we provide

The world is changing faster than ever before and i-worx sees endless opportunities in Hosted Services. Following our hedgehog philosophy all of our energy and resources are geared towards providing Hosted Solutions. i-worx has added to its Hosted Service offerings and now includes file sharing (OfficeOneDrive), unified communications (OfficeOneConnect), and the ability to access specific applications on any device from anywhere, (OfficeOneApps). Clients are able to choose the solution that bests fits their need; from a full blown hosted desktop to one application streamed to their device of choice. This flexibility and choice has given i-worx access to markets and clients that we could not penetrate otherwise. The branding of these solutions and the support we offer has led i-worx to be seen as a premium Hosted Service Provider.

We come of Age

i-worx has moved beyond the mindset of a small business, to thinking and acting like a medium to large enterprise. The structure of our company reflects this change and our staff compliment has increased to 37. Part of the structure includes a Chief Operating Officer which allows the Directors to focus on driving us to our 2018 goals. Job descriptions are clearly defined and reporting is clearer than it has ever been. There has been huge effort in creating systems and automating where we can and has led us to be more consistent in providing client facing solutions with great service. Although necessity dictates we have more structure we are still lean and nimble. We have moved from a good company to a GREAT company.

Branding and penetrating markets

Never in our history have we been so clear as to the solutions and services we provide and we have worked hard on branding i-worx as a Premium Hosted Services Provider. We now target and sell our services to clients throughout Canada and Internationally.

We have achieved our goal of reaching 6,000 users (2015) and this is a good stepping stone for achieving our ultimate goal of 64,000 by 2018. We have achieved this by continuing to forge ahead with the traditional methods of marketing and selling our services such as adding new members to our sales team, advertising, building relationships with associations within different target industries, tradeshows etc. We are supplementing our traditional approach by leveraging the digital age we live in e.g. Social media, targeted email campaigns, blogging, interactive website etc.

We have augmented our internal sales and marketing efforts by partnering with a strategic partner\s to drive us more quickly to reaching our goals. Their expertise and approach to penetrating untapped geographic markets has paid huge dividends and assisted us in reaching 6,000 users.

Our People – Dream Team

The diverse backgrounds and skillsets of the people at i-worx is what make us successful and unique. We cherish each one of our team and we continue to attract extremely passionate, intelligent loving caring people. Cultural fit is a very

important component when hiring new team members. Remuneration, benefits both health and others is all key in ensuring we keep our team and keep attracting quality staff. We continue to provide an environment whereby our team are challenged, given responsibility and accountability for their work and recognized and rewarded for their effort.

2

Keeping abreast of technology and other facets of our business is key to the future success of i-worx and hence training, attending conferences, vendor trade shows etc. are common place. Our team is better informed and trained than ever before and has positively impacted the way i-worx operates and the client experience.

With our 37 strong team we have never been in a better place as company to provide our solutions and support our clients – we truly do have a Dream Team. You are all the best. Thank you

Our evolving Home

We are on the grow and more office space is required to house our incredible team. We have negotiated the space next to our existing office. It has been remodelled to match our existing office. It's modern in design and function follows form. A recreational room has been created as part of the additional office space. The new recreation room is well received, well used and a fun place for all to hang out, chill out, play pool, Xbox, watch a movie and getting physical exercise. Our office reflects our company's personality and the feedback we get from people who visit is – 'Wow what a warm, welcoming great place to work.'

Financial Goals

Executing the sales and marketing strategy and hard work has led to record sales and i-worx is rewarded generating $7.2 million as of 31st December 2015. Our team shares in the financial success of i-worx, via better remuneration, better benefits and more disposable income. We have moved to fixed billing and are now accepting credit cards and direct deposits which has significantly helped with cash flow.

Operational

We have added equipment to our 2 existing data centres to keep up with the demand of the hosted services. Our 3rd data centre has led to data being replicated offsite and off the fault line and affords ourselves and clients even greater peace of mind. The hosted infrastructure includes a ½ petabyte of storage (500TB), 30 physical servers, 600 virtual servers. Holy man and women.

With OneCare we Care

Executing and continually adding to i-worx's OneCare program is proving to be successful and ensures we continue to WOW our clients with great service and achieving our ultimate goal of happy clients and client retention. OneCare has many facets; client management meetings, call backs on critical issues, surveys, onsite visits, newly created self-help Client Portal.

Significant effort has been put into automating tasks and creating a self-help Client Portal. Clients are able to perform routine tasks including, disable\enable users, disconnect users, reset passwords, group membership management, GAL updates, view reports on active users, invoices, outstanding tickets etc. Our clients love the self-help and transparency of the Client Portal and so do we. Referrals are on a steady increase which is the ultimate client satisfaction yard stick.

3

Measuring our success

We have spent time building key performance indicators for each functional area and facet of our company. We know exactly where we stand on daily, weekly, monthly yearly basis. We hold WOW POW's quarterly whereby we stop and take stock of what we have achieved and what still needs to be done and make modifications where applicable. Measuring has ensured that we keep on track we have been more successfully than ever before. We celebrate our successes by doing something as team after our quarterly WOW POW's.

A Win for our community

We continue to give to the charities both in cost reduction in services and in donations, both food and monetarily. We have successfully sponsored and supported our first child within our community. They are able to take part in sport and activities that they would otherwise not be able too. Very exciting.

i-worx is in a very exciting place and on the precipice of greatness. The future

looks brighter than ever and we look forward to continuing and sharing this journey with you all.

12.4 Appendix D – Implementation path

Figure 5 Implementation path (source i-worx)