STRATEGIC ANALYSIS FOR A SOFTWARE COMPANY IN THE CUSTOMER RELATIONSHIP MANAGEMENT MARKET

by

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Executive Summary

This strategic analysis considers the current state of Maximizer Software Inc., its internal resources and the external forces acting on it. In doing so, it identifies the barriers to the company's success and analyses its current state against three new strategies capable of sustaining revenue growth and profitability over the next five years.

The firm's market continues to grow at a healthy 12% per year and the firm's target customer base exceeds 3 million businesses that have yet to adopt the market solution. Yet the firm has been unable to sustain revenue growth or profitability over the three years ending November 2012. The firm's revenue from new customers is declining faster than its total revenue, suggesting that it is no longer attractive to new customers.

This analysis finds that the firm lacks an appropriate strategic position from which it can execute a defensible strategy. It lacks significant differentiation for its products in a crowded competitive market segment. It has not been able to effectively leverage the resources and advantages it does enjoy.

This strategic analysis recommends that the company take advantage of capabilities inherent in the product to develop industry-specific solutions for a number of industry vertical markets. In this manner, the firm will move a significant portion of its business from an undifferentiated and highly competitive horizontal market space to a series of less competitive vertical market spaces with differentiated solutions. The firm's products have a capability that enables it to inexpensively develop industry-specific

variants. In this manner, the firm can enter smaller and more defensible markets with differentiated solutions that raise the customers' willingness to pay.

There are two recommended strategies, both of which predict significant revenue gains and consistent profitability.

The first recommendation is based on an internally funded strategy that begins with a lowering of operational expenses, internal efficiencies, and an expansion into industry-specific vertical markets. This strategy predicts a revenue growth from $7.5M in FY2012 to $15M in FY2017. Discounted cash flow analysis suggests a net present value of between $3.5M and $4.6M over a five-year span.

The second recommendation a variation of the first, adding new investment from the firm's shareholder of between $2M - $2.7M. This investment will be used to accelerate development and marketing activities to enter the vertical markets set out in the first. This strategy predicts revenue growth from $7.5M in FY2012 to $17M in FY2017. Discounted cash flow analysis suggests a net present value of between $0 - $647k over five years after paying off the original investment after which time the firm will realize both higher revenue *and* net income.

Dedication

This project is dedicated to my partner Jennifer Macdonald and my son Matthew Boulter. You have both been so patient and supportive throughout my progress in the EMBA program. I could not and would not have done this without you. I love you both!

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Maximizer Software Inc. produces and markets Customer Relationship Management (CRM) software and related professional services.

CRM software enables sales, marketing, and customer service teams to record and co-ordinate all contact with their customers. Without such software, organizations have difficulty identifying problems and opportunities in their business that can result in lost customers, higher customer acquisition costs, and lost business growth opportunities.

This analysis will consider Maximizer's internal capabilities, external operating environment, the consequences of action or inaction, and recommend strategies leading to sustainable growth. It will review the firm's resources, strengths and weaknesses, and what strategy it executes today. It will assess the status quo and develop three strategic alternatives against the firm's strategic goals. Finally, it will recommend a strategy for sustainable competitive advantage and growth.

This analysis follows a structured strategic analysis framework (Boardman, Shapiro, & Vining, 2004) designed to capture three major components of a comprehensive strategic analysis.

The first step in the analysis is a review of the company's current state. The current state analysis reviews external factors, internal factors, current strategy and historical financial performance.

The second step identifies the firm's core problem, considers the consequences of maintaining the status quo, and generates strategic options for the firm. It will also point to a recommended path that considers four potential strategies that includes the firm's status quo as a benchmark.

The strategic alternatives are evaluated in the third and final section. Options are evaluated against the firm's objectives, their value is assessed, and recommendations are made to form a strategic plan.

1.1.1 The company: Maximizer Software Inc.

Maximizer Software Inc. began in 1988 as Pinetree Software founded in Vancouver, Canada. The firm originally contracted with Re/MAX Realty to develop a software application subsequently called "The Maximizer" to help realtors keep track of client contacts. This business began in the category of Sales Force Automation (SFA), now considered a subset of CRM.

The company took the product to market as a contact management system through a succession of companies that included Modatech, Multiactive, and Richmond Software. Over time, the company evolved its marketing and customer support capabilities into the more comprehensive Customer Relationship Management (CRM) software application that it is today.

1.1.2 Maximizer's ownership and scope

Terrence C.Y. Hui, co-owner of Concord Pacific Development Inc. one of Canada's largest real-estate development firms, created Maximizer Software Inc. with his purchase of Multiactive Software out of receivership in 1997. The company operates as a single business unit with a single line of business (Maximizer CRM software and related products and services) in a single technology market (Customer Relationship Management). The company along with its two subsidiary companies Maximizer Software Ltd. (UK) and Maximizer Software Solutions Pty. Ltd. (Australia) serves small- and mid-size businesses of 1-100 employees in over 20 countries. As of March 31, 2013, the company had 54 employees.

1.1.3 Maximizer's sources of revenue

In order to gain insight into the company's business, the company's revenue share by market is shown in Figure 1. The company's business in FY2012 sold to 2,898 customers doing business in 44 different industry vertical markets. The top 12 industry markets comprise 66.8% with the top three markets comprising 38.3% of the company's revenue.

The table is shaded to identify the top three markets for each product. Note that the license category "Other Licenses" refers to optional licenses that combine with the other products to form a complete solution. They are not sold separately and therefore should be ignored as market opportunities.

The company's average revenue per customer in FY2012 was $2,020. The product pricing ranging from $229 per user through to $999 per user and average license revenue per customer in the same period at $910, suggests that the company's customers are generally small.

Current users of the software purchase "software maintenance" in order to maintain access to technical support and software feature upgrades. Software maintenance is 20% of the list price of the product per year. Based on FY2012 software maintenance revenue of $3.303M, the company can estimate that there are 18,150 licenses in-use with 2,898 customers, suggesting an average of 6.2 licenses in-use per customer. This indicates a clear dependence on small businesses for its customer base.

Forrester Research (Band, 2012) places Maximizer in the context of the large enterprise market with equal influence on that market than the same analysis performed for the mid-size market. However, the analyses also clearly show that Maximizer has had significantly more success in the mid-size market relative to its success in the large enterprise market. These independent Forrester Wave market analyses provide further evidence that Maximizer is competing in a low-to-medium price and functionality market segment.

Figure 1 shows that three markets in particular emerge as areas where absent any specific marketing initiatives; customers from the Financial, Manufacturing and Services markets are attracted to Maximizer more so than other markets.

In summary, the company's position is that of a software company that depends on small organizations in a wide range of markets (a horizontal market), from which there are opportunities in markets such as Financial, Manufacturing and Services segments suitable for use in a vertical marketing strategy.

Products	Revenue												
	Public Sector			Private Sector									Totals
	Municipal	State	Federal	Financial	Manufacturing	Services	Technology	Health	Retail	Insurance	Wholesale	Software	
Maximizer Entrepreneur[1]	0.03%	0.28%	0.01%	1.11%	0.52%	0.68%	0.31%	0.21%	0.12%	0.12%	0.19%	0.10%	3.67%
Maximizer Group[2]	0.00%	0.11%	0.01%	0.88%	1.20%	0.67%	0.67%	0.13%	0.21%	0.10%	0.25%	0.18%	4.40%
Maximizer Enterprise[3]	0.01%	0.08%	0.00%	0.39%	0.89%	0.05%	0.11%	0.08%	0.00%	0.40%	0.00%	0.06%	2.08%
Other Licenses	0.01%	0.26%	0.15%	1.84%	1.80%	0.50%	1.04%	0.91%	0.97%	0.81%	0.47%	0.55%	9.32%
Maintenance[4]	0.29%	2.13%	0.34%	6.85%	8.10%	4.94%	3.28%	1.80%	3.59%	1.14%	1.58%	1.04%	35.08%
Services	0.00%	0.23%	0.01%	4.88%	1.98%	0.93%	0.45%	1.57%	1.12%	0.26%	0.23%	0.40%	12.06%
Training	0.00%	0.04%	0.01%	0.02%	0.07%	0.03%	0.07%	0.02%	0.01%	0.00%	0.00%	0.01%	0.28%
Totals	0.34%	3.13%	0.53%	15.98%	14.57%	7.80%	5.94%	4.71%	6.02%	2.83%	2.72%	2.33%	**66.89%**

Source: Maximizer FY2012 transaction detail

[1] Entrepreneur software licenses do not share data amongst each other and are typically sold to individuals or groups of less than five users.
[2] Group software licenses share data amongst each other and are typically sold to groups of less than five users.
[3] Enterprise software licenses share data amonst each other and are typically sold to groups of five or more users.
[4] Software maintenance is purchased by existing customers in order to retain access to technical support and version upgrades.

Figure 1: Maximizer revenue share by industry market

1.1.4 The impact of disruptive new technology: "The Cloud"

The most significant change for the company during the past five years has had less to do with functionality of the software and more to do with the system by which the software is delivered. Until 2006, the predominant delivery system for enterprise applications was "client-server" technology. Client-server software applications were loaded from a centralized computer (a server) and performed their computing tasks on the receiving workstation (a client).

In 2006, Amazon.com launched the first commercially available "cloud computing" service. Cloud computing software is designed to allow a single application to be stored on one or more servers and perform computing tasks on the server(s). Results are then returned to the remote receiving workstation. Cloud technology is intrinsically Web-enabled providing the ability to operate an application anywhere, anytime, on any hardware platform using a web browser. These technologies also encourage the re-use of software code and when combined with virtualization[1] technologies offer greater asset utilization.

Cloud computing platforms have dramatically changed the physical delivery system for software applications. Where client-server technologies generally required that a firm purchase its own hardware to run a given application, cloud computing platforms can be rented according to how much storage space and computing power is required. In the event that space or computing power requirements change, the platform providers can easily re-provision resources according to the company's needs. This dramatically reduces unused storage and computing power increasing the cost efficiency of the platform.

The economic delivery system has been changed as well. Cloud applications can be 'hosted' by the vendor and sold as a subscription to the customer. As such, the customer avoids the large up-front costs of purchasing a perpetual software license typical of client-server technologies. This business model is referred to as "Software-as-a-Service" or SaaS.

[1] Virtualization technologies are those that enable the operation of multiple 'virtual' computers within a single physical computer. This approach increases the efficient utilization of computing resources.

The unique capabilities of cloud computing platforms can help organizations gain competitive advantage (Iyer & Henderson, 2010). Users can access the software anytime, anywhere on a wide range of devices such as mobile phones, tablet and laptop computers, and desktop computers without installing any application-specific software on the device itself. The subscription costs can be billed monthly, quarterly or annually and include all hardware support costs.

A five-year TCO comparison (Gruman, Morrison, & Retter, 2007) between an enterprise SaaS application with a similar on-premise client-server offering typical of Maximizer's target market shows that the costs of the SaaS solution is less than half of that of the client-server equivalent.

The market's shift to a SaaS model led vendors like Maximizer to develop a SaaS subscription model for their software offerings. This in-turn caused a significant disruption to existing revenue cash flows for Maximizer and other pre-cloud vendors.

The functional and economic shift of the cloud has increased costs for incumbent client-server vendors like Maximizer while lowering barriers of acquisition and entry for customers and new market entrants. The lower barrier of entry for market entrants attracts competitors entering the market, particularly servicing small business users with less demanding requirements. Existing market players like Maximizer experienced a significant increase in their product development costs caused by supporting their legacy client-server software and their new cloud development efforts. New market entrants need only incur development costs of a single platform with commensurately lower costs. Existing participants then experience a sunk-cost effect that persuades them to protect their client-server code base. Firms regret the perceived loss of value with respect to their already-invested client-server resources and the knowledge specific to that legacy technology. The result is an "inertia" that causes the firms to tend to favour the legacy technology (Besanko, Dranove, Shanley, & Schaefer, 2009) at the expense of the new innovative technology. Incumbent firms then experience a dilution of resources while new entrants enjoy the benefits of focused resources. For customers and new entrants there is little downside while for existing vendors, increased development costs have put pressure on their top and bottom lines.

The cloud lowers barriers of exit for customers. In most cases, a customer can enter for a monthly fee that represents as little as $1/30^{th}$ of the former cost of a perpetual license. If the product does not satisfy the customer, the customer may exit often without penalty. As a result, customer churn (the number of customers lost versus the total acquired) increases and becomes an important key performance indicator for SaaS firms.

Vendors have a significant interest in creating barriers to exit for the customer. SaaS/cloud customers perceive a lower risk in their decision process with the ability to enter with few or no up-front costs. This benefits vendors during acquisition, but with fewer barriers to exit, it also increases the potential for customers to leave at any time. The accumulation of data in the system can create an internal network effect[2] and exit barrier where the cumulative data stored in the system increases the value of the solution to the firm. Vendors will also create barriers to exit with minimum term contracts, integration and customization.

[2] A network effect is that which increases the value of a solution as the number of users of that product increase. In this case, there is a 'network effect' from growing data within a system making the system itself more valuable.

With such an attractive cost advantage of 50%-66% (Sommer, 2010), combined with the lower barriers of entry and exit for cloud-based solutions, customers have been flocking to cloud-based CRM. The cloud-based market has grown from 0% in 2000 to an estimated 35% today and is forecast to be 50% of all CRM applications in use by 2020 (Gartner Inc., 2012).

Disruption in industry is not unusual, but rather operates as part of a predictable pattern. The evolution of technology driving an industry begins by competing on highly differentiated products and differentiated costs. This happens through the introduction of a new technology and an effort to meet the needs of mainstream customers. Once functionality meets the needs of the majority of customers, the industry is forced to compete on convenience, price, customization, and flexibility (Christensen, Raynor, & Verlinden, 2001). The failure of incumbent firms to adapt quickly to this shift opens market opportunities for new entrants to disrupt the market with improved, less costly, simpler, or more specialized variants of the product. The CRM market is no exception to this disruption pattern. Siebel Systems Inc. dominated the CRM market in the 1990s peaking at 45%[3] market share and was subsequently purchased by Oracle Inc. As Oracle and their large enterprise competitors sought to meet the needs of that high-end market, this opened op down-market opportunities for new mid-range CRM entrants like Microsoft in the early 2000's, and Maximizer in the small-business sector. In 2007, the industry was disrupted again with the entrance of Salesforce.com to compete with the lower costs, pricing, and flexibility that cloud technology affords. With a mature and

[3] "Rivals Vie for Siebel's Customer Spoils", CNET online, September 27, 2002

dense competitive horizontal CRM market, customization and vertical-market specialization becomes attractive as firms seek to increase customers' willingness to pay.

1.1.5 Declining revenue and new customers underscores the threat

From peak sales of $18M in 1999, the company's most recent fiscal year ending November 2012 declined to $7.5M. The company has experienced a net loss for FY2010-FY2012 although the loss has been narrowing from $1.12M[4] in FY2010 to a loss of $664,039 in FY2012 (Appendix A, Maximizer Income Statement).

The CRM market in which the company competes grew 12% in 2012 (IDC, 2012). The company's sales of new licenses declined 6.9% in FY2011 and 15.7% in FY2012 – faster than the company's overall revenue decline of 6.7% and 4.7% respectively. A key test of a software company's long-term health is its growth of new license sales. The company's decline in license sales suggests that the company is failing to appeal to new customers and puts the company's long-term viability into question.

The company has not developed an integrated strategic plan for its business or defined a strategic position for itself. It has been executing on initiatives that may or may not align with a specific strategic position in the market. A lack of strategic plan consistent with a specific strategic position presents the risk that management will make choices that conflict between multiple market positions and dilute the effects of investment.

[4] Figures presented are net income after one-time restructuring expenses.

2: How external market forces affect Maximizer

An effective assessment of any organization's current state is the nature of the business it is in, an assessment of the state of its external environment and the forces acting on the firm from outside. This section will introduce Customer Relationship Management (CRM) and its value to customers. The section will review the CRM industry, its supply chain, and the industry competitive landscape. It will describe the forces that act on the industry that attract and repel customers, attract and repel competitors, and the rivalries between industry participants. This analysis will conclude with the overall health and attractiveness of the market the company participates in.

2.1 Demand drivers in the CRM market

Customer Relationship Management (CRM) emerged in the 1990s in response to increasing globalization, competition, customer choice, and convenience. Businesses had grown beyond transaction-based marketing based purely on the product, place, price and promotion paradigm developed in the 1950s (Parragh, 2010). CRM supports effective marketing that requires the co-ordination of all customer-facing functions of a business.

The need for CRM is also a recognition that the delivery of products and services are much more complex than that of a singular 'brick-and-mortar' pre-Internet business. A single organization today can have cross-functional divisions connecting with customers. These connections can occur in physical stores or offices, via electronic mail communications or text message, delivered on mobile phones or tablets. Today commerce includes 24x7 online shopping and customer support. Sales can be made directly from the manufacturer, or via wholesaler or reseller partners, with shipments tracked electronically for all parties through to receipt by the customer.

Internet-based commerce has created new and complex multiple sales channels, and delivery systems. Customer demand for continuous improvement in increasingly competitive markets has driven demand for more sophisticated tools that manage this new complexity. CRM software provides this ability to manage all customer connections while providing a customer experience consistent with organizational strategies and objectives. The key components of a CRM system are described in Table 1.

Table 1: Core components of a CRM solution

Module	**Function**
Sales Force Automation (SFA)	SFA manages the lifecycle of 'leads' that may convert to contacts and opportunities. Salespeople can generate quotes from opportunities to be sent to customers. A series of opportunities form a 'pipeline' of prospective sales from which salespeople forecast and generate their business. Advanced SFA capabilities include quote-to-order and mobile access.
Marketing Automation	Marketing departments create campaigns comprised of one or more activities. Activities include email marketing, events, social network marketing, surveys and web-site actions. Costs are assigned to activities within the campaign. Leads generated from these activities can be tracked as they are converted to successful sales, enabling marketing to measure their return on investment.
Customer Service	Customer service and support

	organizations provide external support and assistance. Customer ‘cases’ are created and tracked through to completion. Cases can be managed against expected service levels and analysed to predict problems with products or service levels earlier. Advanced capabilities include click-to-call for call centres, social network analytics, customer self-service portals and knowledge management.
Reporting	Users can monitor their key performance metrics via static reports or dynamic ‘dashboards’. Measurement of leading indicators in organizational activity that may offer early warnings of risks to lagging key performance indicators such as revenue, profit, and customer retention.

2.2 The Customer Relationship Management (CRM) industry

CRM market vendors can be classified into two major groups:

1) Pure-Play CRM Vendors – vendors for whom a CRM software product is their only product with functionality described in Table 1.

2) ERP / CRM Vendors – vendors for whom an ERP software product is their primary product. CRM software products are sold as an add-on product to customers who also own their ERP software product.

Best-of-breed vendors that offer complementary software products to the mainstream CRM suite but who do not offer the core functionality described in Table 1. These vendors typically exist where there are specialized technologies that have not yet found themselves into mainstream CRM solutions.

Vendors providing both ERP and CRM products capitalize on the understanding that CRM supports the "front office" or externally focused activities of the organization, while ERP supports the "back office" or internally focused activities of the organization. ERP includes transactional order processing, managing accounting functions, human resources, and supply chain management activities. Integrating the front- and back-office is a natural desire for most customers. ERP/CRM vendors suggest there are reduced risks and costs associated with integration. However, most pure-play CRM vendors offer Application Programming Interfaces (APIs) for popular ERP systems that mitigate this advantage. Pure-play vendors can compete by offering added functionality and newer innovations faster than ERP / CRM vendors, or by offering integration with existing ERP systems provided by vendors who do not yet have a CRM offering.

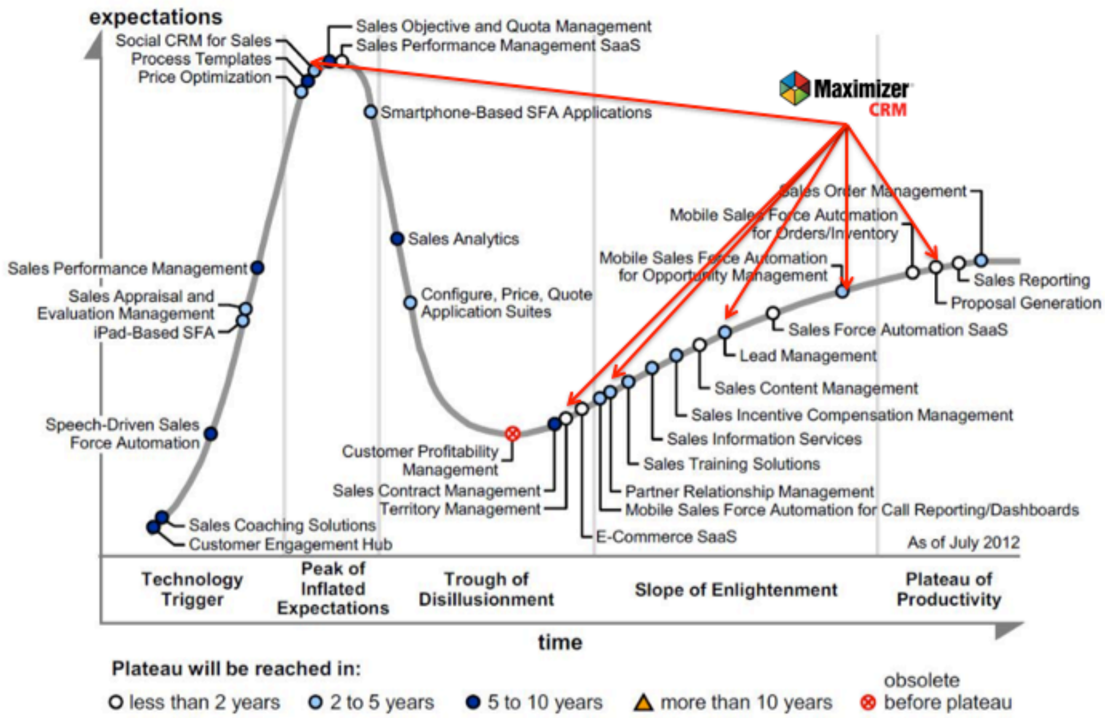
CRM makes it possible to provide a consistent high-quality customer experience using a comprehensive set of tools to manage cross-functional customer interaction. The rapid adoption of CRM growing from 36% in 2009 to 51% in 2011 (Computer Economics, 2012) suggests that firms are realizing CRM is no longer an option but rather a basic requirement for doing business.

2.3 CRM is a moderately competitive industry

The CRM market is densely populated with over 75 CRM vendors identified as of March 2013 (Wikipedia, 2013). This list does not include companies who develop solutions for specific vertical markets, which would certainly push this list into the hundreds of vendors. It is not practical to consider all CRM market participants from a functional comparison perspective.

Appendix D provides a functional comparison between Maximizer and the most common competitors it encounters in the market, as well as examples of market players that may be indirect substitutes (e.g., email programs and services). This table shows that for the most part, market participants cover very similar functions with minimal differentiation. Yet there remain many opportunities depicted by the empty spaces where firms can differentiate their products.

Software innovations do not last long, and this forces companies to innovate faster than many other industries. Where for instance car manufacturers have a product lifecycle of 5-7 years, the functional capabilities for which Maximizer currently provides a solution are all maturing within a 1-3 year window (Figure 2). It is also worth noting that some of the new emergent technologies described in Figure 2 still only enjoy a window of opportunity for competitive advantage of 1-2 and 2-5 years. There are few areas in software where a technology advantage can be sustained for any great length of time due to the ubiquity of software development resources and rapid ability to produce imitative works. This suggests that a strategy to shift the market position of the firm into a less competitive narrow vertical market may be attractive.



Adapted from Gartner Hype Cycle for CRM Sales, 2012, GARTNER, Forbes, [Online]

Figure 2: Gartner "Hype Cycle for Sales CRM 2012"

Maximizer's business to-date has depended on its early entrance into the market relative to current competitors. However, it was a late mover as sales force automation vendors expanded functionality into CRM, and was a late mover into cloud-based technology. This allowed many new entrants to grow faster and overtake the firm.

Prior to the advent of cloud computing, high initial development costs in expensive client-server software development dissuaded market entrants. Since the advent of cloud computing, a highly fragmented competitive landscape has emerged where the top 10 vendors are responsible for 49% of the market (Mertz & Dharmasthira, 2012) with the remaining 51% captured by dozens of other active vendors.

2.4 Narrowing Maximizer's competitive landscape

It is more relevant to narrow the company's true competitive field into 'strategic groups' of firms following the same essential strategy (Porter, 1980). In the CRM market for example, we see firms like Maximizer and InfusionSoft in a strategic group of vendors servicing the horizontal SMB market with CRM solutions. Another example of a strategic group can been seen with Microsoft, Sage and NetSuite offering ERP and CRM solutions to the mid-market. Firms can also compete in more than one competitive group: some firms such as Microsoft and Salesforce.com offer both mid-range solutions *and* basic entry-level options at different functional and price-point brackets to serve two distinct markets.

Strategic grouping has the added benefit of identifying areas of functional strength and weakness relative to competitors encountered during the regular course of business.

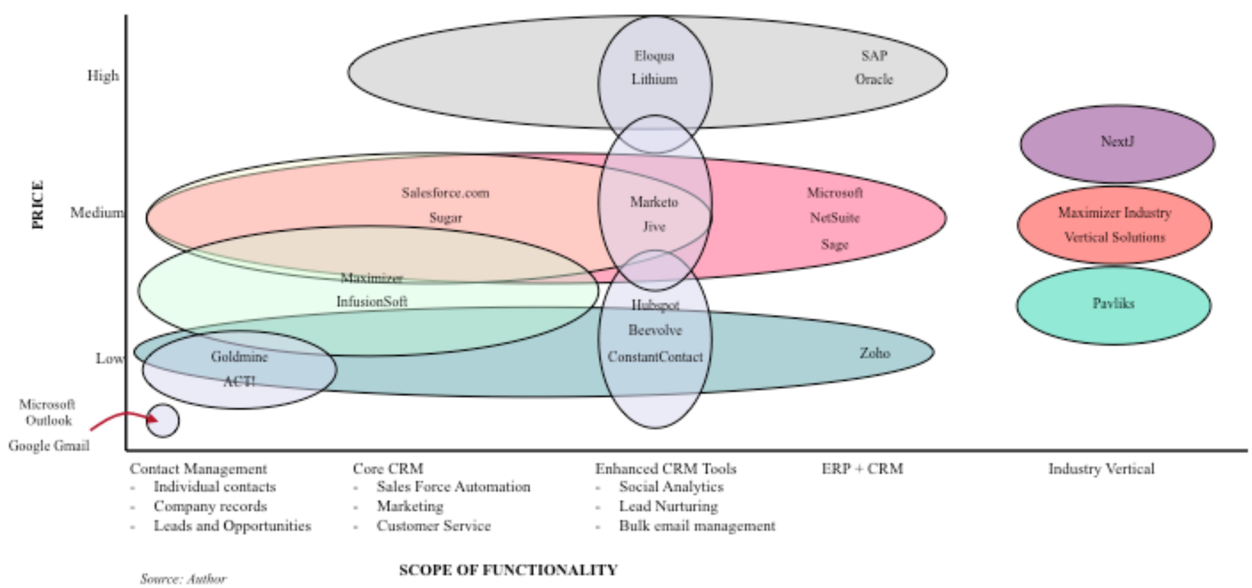


Figure 3: Competitive CRM strategic groups

In order to effectively understand the different contexts of the CRM competitive landscape, it is necessary to break down the monolithic competitive field into these strategic groups (Bergen & Peteraf, 2002). As the authors suggest, we can narrow the definition of the competitive space in which a firm competes. Figure 3 shows the landscape both in relation to the direct and indirect substitutes as well as the relative price and functionality of each participant's offering. Firms within a strategic group compete with increased intensity as they have more in common with each other. (Boardman, Shapiro, & Vining, 2004).

A further narrowing of each competitive group can be made through the provision of vertical market specific functionality. Firms such as NexJ (financial services market) and Pavliks (sports franchise market) narrow their competitive field by providing industry-specific functionality. This specialization accumulates industry-specific knowledge about how to do business in those sectors giving these vendors competitive advantages over horizontal CRM providers. These niches form strategic groups that can be narrowed further by demographics such as small-, mid-size, or large enterprises.

2.5 The CRM industry supply chain is mostly people

The CRM industry's raw materials are much the same as any in the software industry. They largely consist of human resources; software is delivered electronically, rarely requiring inventory or shipping commonly associated with physical products.

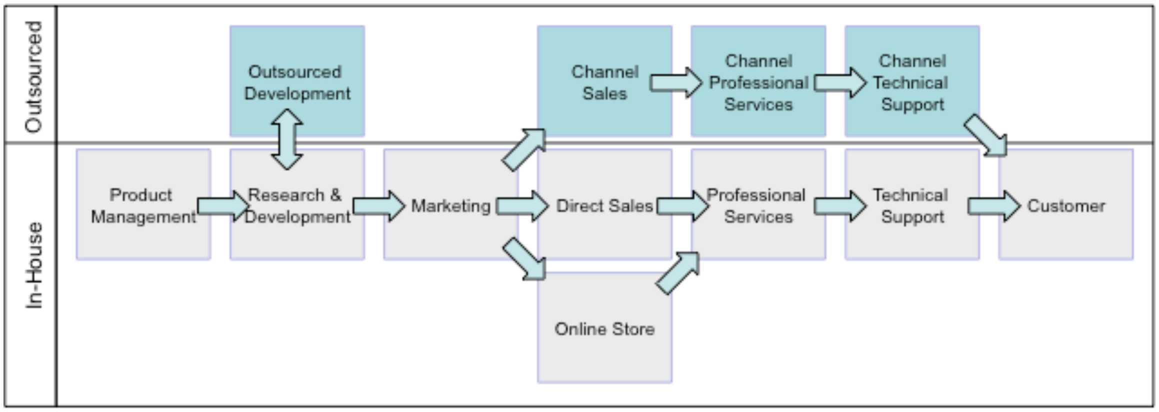
Human resources can be hired within or be external (outsourced) to the firm for almost every aspect of the business. These resources supply the company with its capabilities in each part of the supply chain: software development, sales and marketing, professional services, and technical support.

Outsourcing parts of the supply chain is common, notably for software development, sales activities, and technical support. Indirect channel partners have also been a part of this and many other industries for many years. In the CRM industry, ‘channel’ partners are used to extend the reach of companies’ sales and service organizations. Channel partners are used to scale to geographical and vertical market segments that would otherwise increase the cost and risk of entry into those markets.

Some channel partners provide services that go beyond the scope of providing simple installation and customization. These partners are creating customizations for specific industry markets that reduce the amount of firm-specific customization required. These partners present the combination of the vendor’s platform and their own customization as a single ‘product’ and behave no differently than any other CRM vendor. These partners surrender a significant part of the value chain and are dependent on the vendor they are partnered with for more advanced customizations, core product direction, and product support. At the same time, they avoid the time and costs of developing the core CRM platform while the vendor avoids the costs associated with managing industry specific R&D, marketing and sales.

Classic outsourcing in the software industry is most often interpreted as the outsourcing of software development activities. This is a common practice particularly where companies seek to scale their activities by adding new software components to their offerings without distracting their core development team.

As shown in Figure 4, value is added at each stage through the activities of the company's internal and outsourced human resources. The product output is intangible electronic software that does not have a physical presence at any step in the chain.



Source: Author

Figure 4: CRM software industry supply chain

In order to consume the CRM software produced by the vendor, a customer will require additional software, hardware, and services. Users typically access the CRM on any device from an Internet browser-enabled smartphone/tablet to a laptop or a desktop. The CRM software itself operates on a more powerful 'server' that is comprised of hardware, a software operating system, and the CRM software itself. In addition, a database application must be purchased to store the data captured by the CRM system. The hardware and software may be purchased outright and licensed in perpetuity by the customer in the case of an on-premise licensing model. In the case of a private- or public-cloud licensing model, access to the software from the Internet is paid monthly or annually. Public cloud services include all support costs. If purchased for on-premise deployment by the customer, the customer will need to provision for on going support services to keep the CRM software, the software operating system, and hardware operating effectively. If purchased as a private cloud solution, the customer may choose to manage the software and hardware themselves or contract with an external host to take responsibility for the continuous operation of the system.

Figure 5 shows the relationships between the key hardware and the software components. Items in lightly shaded/yellow boxes are prerequisites for operation of either the CRM or the ERP systems and can be purchased outright or as a service from a cloud provider.

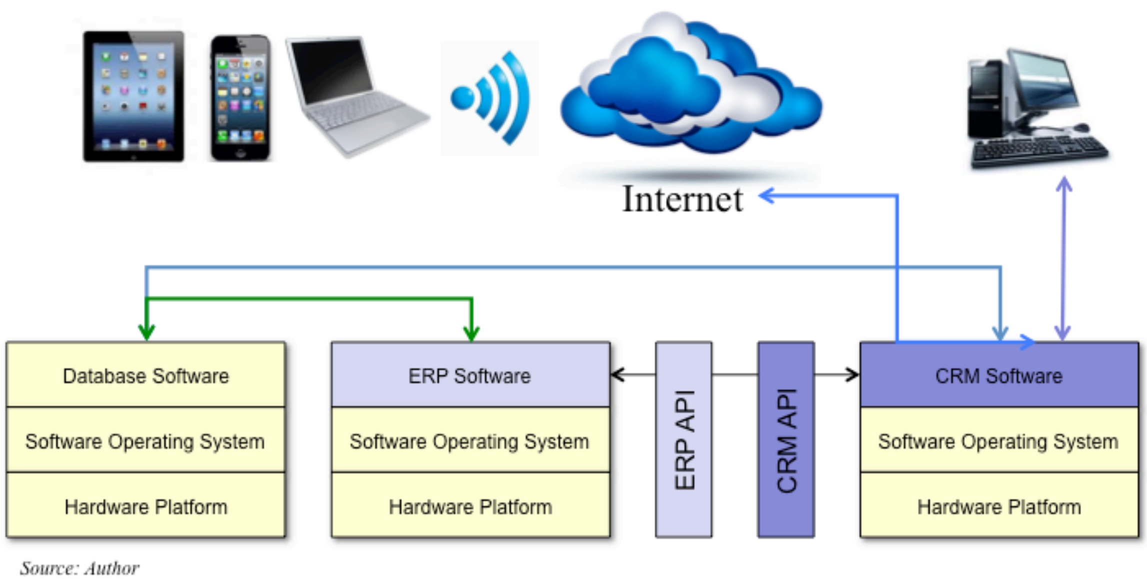


Figure 5: Basic CRM operating environment

2.6 Industry forces suggest moderate competitiveness

An analysis must be performed in order to assess the company’s strengths and weaknesses and understand them in the context of the environment in which it operates. In this manner, the company may decide to enter, remain in, or exit from a given market.

Michael Porter, the Harvard developed what is considered the definitive framework for analysing the competitive forces acting upon a given industry. Porter's "Five Forces" framework determines the intensity of competition and the attractiveness of a market for entrants and existing market participants (Porter, 1979).

The five forces presented in the framework are: threat of entry, bargaining power of customers, threat of substitute products or services, bargaining power of suppliers, and rivalry amongst existing competitive firms. Figure 6 shows a diagrammatic example of how these forces act on the customer relationship management industry.

The following sub-sections expose the detail of the analysis.

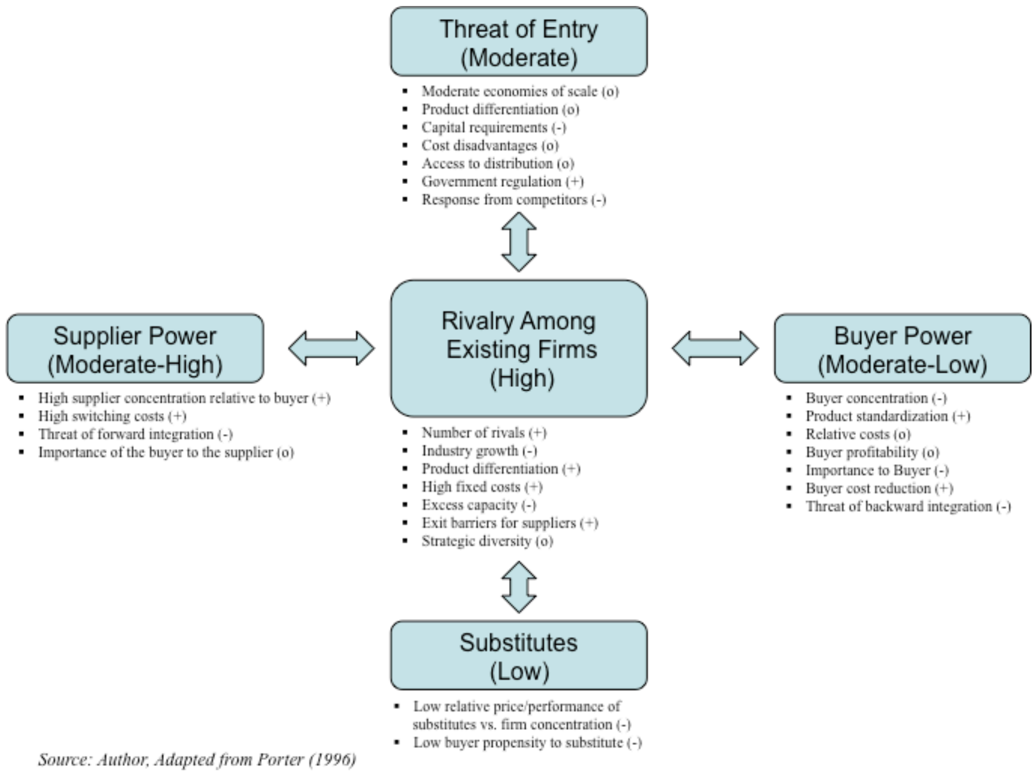


Figure 6: Analysis of CRM market competitive forces

2.6.1 The threat of market entry is moderate

The threat of entry is dependent on what barriers are presented to new entrants and how existing market participants can be expected to react. The key barriers of entry for new entrants are economies of scale, product differentiation, capital requirements, cost disadvantages, access to distribution channels, and government policy. The moderate threat of entry in the CRM market suggests that the competitiveness of the industry will continue to grow over time.

Economies of scale increase barriers of entry when they force entry on a large scale requiring significant investments. Economies of scale for the CRM market present moderate barriers and exist primarily with large organizations' marketing resources and to a lesser degree in the size of their software development teams. Although the scope of any cross-departmental enterprise application is large, the complexity of developing CRM technologies considered only moderately complex. The advent of modern Internet technologies and the availability of open-source[5] databases that are available from any cloud platform service provider reduce the barriers to development. With the global access and ubiquity of software developers particularly in developing economies such as India and China, development resources are available to firms of any size with nominal differences in costs. The emergence of SaaS/cloud technologies has separated the software from the hardware-operating platform, the latter of which has become highly commoditized. This minimizes the competitive advantage of owning this portion of the value chain. Although large organizations' marketing resources can be significant (e.g., Microsoft, Oracle, SAP), they are less of a deterrent to entry once the advantages of platform scalability are removed.

Product differentiation presents a barrier of entry where a company is forced to spend on marketing to overcome brand loyalties. In this case, product differentiation presents a moderate barrier of entry. The customer's purchasing process typically begins with Internet search, consultation with trusted advisors that include existing third-party channel partners, and industry analysts. This also suggests that product differentiation inside the product lacks significance unless backed by some ability to communicate those differences to a prospective customer. Larger enterprises often engage industry analyst firms such as Gartner and Forrester Research to provide reports or specific selection advice. Smaller organizations unable to afford the services of the analyst firms rely on

[5] Open-source licenses are those provided free of charge under specific licensing terms that ensure the licenses continue to be free of charge throughout the supply chain.

Internet search results that include online reviews and vendor-supplied information. Large enterprises are typically targeted by the sales organizations of vendors serving those markets and contacted directly for business development. Smaller enterprises will be engaged by regional channel partners or by vendors directly when the buyer requests information online or responds to a marketing campaign. With a large and diverse competitive landscape made of numerous vendors, brand awareness for smaller firms is driven by less expensive online marketing. Large incumbent entrants with massive brand equity such as Microsoft, Oracle and SAP do exist. Although they are not directly in Maximizer's strategic group (Figure 3), Microsoft and Salesforce.com are large brands that overlap with Maximizer's strategic group and create additional competitive intensity. However, the large prospective market of buyers does offer a firm the ability to participate with a sizable and profitable share of the market. By these measures, the power of differentiation can be considered moderate.

Capital requirements present barriers of entry where firms are required to invest significant financial resources in order to compete. In the CRM industry, capital requirements for the industry are moderate relative to other industries but high relative to the software market in general. Equipment costs are relatively low and human resources can operate as remote teams located anywhere in the world. There are significant up-front costs associated with developing any enterprise application relative to a single purpose application. A software firm developing a single-purpose software application such as a smartphone application or software utility can get to market relatively quickly with perhaps ½ to 1 person year of development resources. An enterprise CRM application consists of multiple modules as suggested earlier in Table 1. Each module could be considered an individual application in its relative complexity, and would take a commensurately longer period of time to develop with more resources (10-12 person years) in order to deliver nominal functionality. Some vertical market participants are able to avoid this barrier by building customizations on top of an existing CRM vendor platform.

Cost disadvantages are considered to be those that are independent of scale. These cost disadvantages present barriers when existing market participants possess unique capabilities. These capabilities include specialized knowledge gained via participation (a learning curve), from protected intellectual property acquired (patents), favourable locations, or unique access to raw materials. The barrier of entry here is moderate-to-high depending on the composition of the strategic group in which the firm competes. In the software industry, these cost disadvantages can be primarily related to patented design and knowledge gained via participation in the market. In a horizontal market, the knowledge of the customer requirements can be acquired during the sales process reasonably easily. In a vertically oriented strategic group, the required detailed knowledge of the vertical market is high and so presents a higher barrier of entry. Patent protection provides a degree of dissuasion but in the CRM market has been rarely enforced between competitors. As of March 2013, Salesforce.com has been issued 161 patents related to its business. Many patents are related to database operations and user interface designs that form the foundation of CRM technology. A cursory search of the Internet yields a very small number of lawsuits filed related to CRM-related patent defence. The most significant incident was noted between Microsoft and Salesforce.com relating largely to database technology rather than CRM-specific technology. Even so, the nature of the CRM business and its dependence on database and user interface designs which are available from many commercial and non-commercial sources limits the utility of this protection. A prospective entrant might carefully consider whether the investment in patent protection will yield the desired value before pursuing an IP protection strategy.

Distribution channels produce an effective barrier of entry when they are limited in number preventing access to the customer. Access to distribution channels presents a moderate barrier of entry in the CRM market. Most CRM software vendors offer their products through a minimum of an online store that is accessible by prospective customers 24 x 7 x 365 anywhere in the world. Many vendors employ both direct sales organizations that can make or receive calls to prospects in order to develop their business directly. In addition, many vendors opt to partner with 3rd party resellers and systems integrators in order to extend their reach and avoid scaling their own direct sales organizations. This trades off a portion of the firm’s potential revenue in the form of discounts on the software to these ‘channel partners’ that they take as their margin.

Government regulations present a barrier of entry where licensing to operate is restricted, regulations are heavy, or where governments might restrict access to raw materials. There are few government regulations that present significant barriers of entry for CRM software vendors. However, one emergent issue related to SaaS/cloud technology has been the issue of jurisdictions over customer data. Recent trends have seen various governments including the U.S. pass laws granting themselves access to data owned by foreign organizations. Particularly troubling to non-U.S. firms, laws such as the U.S. Foreign Intelligence Surveillance Act allows U.S. government officials to legally conduct surveillance on foreign companies' data accessible in U.S.-based cloud storage. Although many other countries have similar laws, this encourages a number of customers to look for CRM SaaS/cloud solutions that are located on the firm's own premises or in their country of origin. Firms such as Salesforce.com cannot or will not accommodate these customers, creating opportunities for other firms.

Reaction from existing competitors presents a barrier of entry where these competitors have a history of responding aggressively to new entrants. The risk of reaction from competitors to new entrants into the market is low. The firm operates in a near-perfectly competitive market where the products are near perfect substitutes and as such competitors operate as price-takers and no individual firm can control the market price. The nature of the software business provides for near-unlimited manufacturing capacity. Industry growth remains healthy at 12% in 2012, enabling existing participants to absorb new entrants with less threat of retaliation. The cloud-computing model has accelerated the entrance of competitors seeking to obtain market share based on pricing lower than existing market participants. In turn this has seen existing participants lower prices in response, particularly in the small- and mid-size business segment.

2.6.2 Customer buying power is moderate

Buyer power enables buyers to obtain lower prices in or seek substitutes to an industry's offerings thereby making the industry less attractive. Customer (buyer) power is dependent on buyer concentration, standardization of products, the cost of the product relative to the buyer's overall costs, industry profitability, the effect of the product on the quality of the buyer's own products or services, the ability for the product to reduce the buyer's costs, or the threat of the buyer integrating backwards into the seller's industry.

Moderate customer buying power here suggests that customers will not be able to exert excessive power over suppliers that would increase the intensity of competition and yield lower economic rents.

Buyer concentration increases buyer power where there are fewer buyers available to the market or where buyers purchase in larger volumes, increasing the competitive intensity in that market. Buyer concentration in the industry is low: the scope of available customers for CRM crosses virtually all industries, geographies, and organizational types or sizes. For Maximizer's dominant market constituency, the scope of available customers is those in the small- and mid-size markets (defined as 1-499 employees by Statistics Canada (Leung, Rispoli, & Gibson, 2005). In the most recent census of small business, there were 5,911,663 firms in the U.S. alone (U.S. Census Bureau, 2008). This suggests that buyers have less power based on the ability of the industry participants to find alternative customers.

Standardization increases buyer power when products lack differentiation giving buyers the ability to substitute between firms in the market. As shown in Appendix D, standardization of products is generally high: although there are numerous small differences between products, core CRM functions satisfying the bulk of buyer requirements are available from most market participants. This increases buyers' power to select alternative vendors.

Where the cost of the vendor's product forms a large portion of the buyer's business expenses, this can increase the buyer's power, as they will be more likely to negotiate harder on price. The cost of CRM products relative to the buyer's overall costs is moderate. Acquisition costs range from $180 - $1,500 per user per year to provide a cost effective solution relative to a business of any size. This suggests that buyers will be less price-sensitive due to the small share CRM would represent of their overall expenses. In practice the wide range of costs and available products has seen some customers switch to lower cost competitors as a part of a greater effort to lower their costs during economic downturns.

High buyer market profitability decreases buyer power where buyers feel less pressure to negotiate on price. Buyer industry profitability varies across a diverse range of industries. This diversity of prospective buyer industries suggests that there would be enough profitable customers available from which to obtain profitable business. Conversely, extended cycles of economic weakness can place pressure across all industries, increasing buyer price sensitivity. In these respects, the influence of industry profitability would be moderate.

When the industry's product has an insignificant effect on the quality of a buyer's own product or service, the buyer's power increases. The importance of CRM product on the quality of a buyer's product or service is high and therefore lowers the bargaining power of the buyer. By definition, CRM co-ordinates customer-facing contact for the customer. CRM controls information flow and activities that serve the customer directly or indirectly. In practice, customers often approach the firm with very specific business improvement requirements that influence their customers' decisions. This suggests that the buyer is less likely to put downward pressure on price. This also implies that vendors with the ability to customize their product according to the unique needs of a customer or vertical market will be able to protect their margins and raise the customer's willingness-to-pay.

The ability for an industry's product to decrease a buyer's costs decreases their buying power as it decreases their inclination to bargain down price. However, CRM is largely designed to improve a company's ability to generate revenue rather than reduce its costs. In this respect, the buyer is more likely to bargain on price.

A buyer's ability to enter a supplier's market is referred to as backward integration. The threat of backward integration increases a buyer's power. It is rare for companies to backward integrate into the CRM industry, as the barriers of entry for customers are significantly lower than the cost to develop or acquire exclusive rights to equivalent functionality. Companies building their own enterprise software solutions generally do so in order to achieve a distinctive competitive advantage. There are two key reasons why this rarely occurs in Maximizer's industry and particularly its strategic group (Figure 3). First, the size of the SMB market in which Maximizer typically competes makes it cost-prohibitive for customers of that size. Second, the flexibility of most CRM products typically allows firms to customize their 'off-the-shelf' product to fit their specific purposes. The power of a buyer to backward integrate in the CRM market is low.

2.6.3 The threat of substitute products outside the industry is low

Substitute products are those products that are substitutes from *outside* of the firm's industry or strategic group. Buyers use substitute power to avoid purchasing a firm's products and this can limit industry growth and earnings potential.

The most common substitute from outside of the CRM industry is the combination of email client software such as Microsoft's Outlook or Google's Gmail, together with a spreadsheet such as Microsoft's Excel. Small organizations often use the contact database in their email client software for tracking contacts and use a spreadsheet to track their opportunities. Since neither of these tools is classified as a CRM industry product, they can be considered substitutes. In practice, the users of these substitutes become sources of new customers for CRM vendors as they look for new capabilities beyond the scope of email client software. In this respect, the threat of substitution should be considered moderate.

2.6.4 Supplier power is moderate to high

Supplier power is created by lowering supplier concentration, raising switching costs, forward integrating into a buyer's industry to emerge as a competitive threat, and by limiting the importance of any one customer or industry to the supplier.

Lowering supplier concentration relative to the customer industry it serves increases the power of the supplier industry to generate profitable business. The CRM industry has hundreds of competitors but millions of prospective customers, and in this sense the supplier power is high. Vendors who choose specific vertical markets for which they provide tailored solutions reduce the size of their strategic group and increase their power further.

Switching costs raise supplier power by making it more difficult for customers to switch to a competitor or substitute product. Switching costs for the CRM industry are high. On one hand the switching costs have been lowered dramatically by the introduction of SaaS/cloud solutions. Two key factors counter-balance this effect to increase switching costs. The first is the use of customization by either the vendor or the customer to tailor the solution to fit their unique business processes. The second is the population of the system with data over time that represents the valuable knowledge captured through each customer interaction. Individually these factors raise the switching barrier for customers. When combined, these factors make switching very difficult and costly. In order to switch, a customer would have to engage a vendor to produce a duplicate customization on a new system and develop a custom tool at significant cost that would migrate the customer's data records to that new system. For smaller customers in the SMB market, these switching costs can be prohibitive.

Forward integration refers to a supplier's ability to enter the buyer's market particularly where the product supplied forms a significant part of the buyer's product. In the CRM industry, the threat of forward integration is nearly non-existent. There is no benefit for CRM vendors to enter an industry other than that of the general software industry, and even then only a small number of complementary software markets make sense such as the ERP or office productivity applications market. Customers in these markets represent a miniscule fraction of the overall market for CRM products.

Supplier power is lowered where the buyer's industry is a significant factor to the supplier's own success and encourages the supplier to constrain prices in order to ensure the on-going health of the buyer's industry. At an industry level supplier power is high due to the diversity of the vendor markets. However, supplier power would be reduced for firms choosing to specialize in specific vertical markets as the *concentration* of suppliers within that vertical market can increase. Power is transferred from the supplier market to the buyer market as the market definition narrows.

2.6.5 Industry rivalry is high

The number of competitors and their size in relation to each other determines the intensity of rivalry. Industry growth, product differentiation, high fixed costs, perishability, industry supply-demand, exit barriers for participants, and the diversity of rivals also affect the intensity of rivalry. Industry rivalry reduces firms' ability to earn economic rents above marginal cost.

The number of rivals in the market and their size relative to each other increases rivalrous behaviour. Rivalry from the number of competitors is high caused by the numerous competitors in Maximizer's current strategic group (Figure 3). The global accessibility of SaaS/cloud solutions enables competition from any geography and exacerbates these rivalries. In this manner, rivalry is increased.

Strong industry growth reduces rivalry by offering more customers from which competitors can choose. Industry growth is strong at 12% in 2012 (IDC, 2012) and therefore suggests a low influence on rivalry.

Product differentiation reduces the likelihood of customers switching to competitors' products. Product differentiation is low for the horizontal market, suggesting increased intensity of rivalry. At the same time, differentiation can be increased via specific vertical market capabilities and customization, lowering the intensity of rivalry.

Rivalry is increased when fixed costs are high as vendors are more likely to cut prices in periods of reduced activity. Fixed costs in the industry tend to be high, driven primarily from high payroll costs as a percentage of total expenses. High fixed costs provide an incentive to cut prices (often temporarily) in order to drive sales during periods of low demand.

Sudden excess production capacity or supply increases rivalry as suppliers seek to liquidate excess inventories by cutting prices. Although CRM industry and software industry capacity remains high due to the intangible nature of software products, it does not change suddenly. There is little price cutting activity related to capacity in the software industry as a whole. Rivalry is not changed in this respect.

Exit barriers raise rivalry when they keep companies competing in a market for which they have few or no alternatives. Exit barriers for horizontal market participants are high, suggesting a high influence on rivalry. Most market participants would be considered 'pure-play' with few alternatives to exit the CRM market in favour of an alternative. However, there are opportunities to exit strategic groups to shift to opportunities in other strategic groups. For example, a firm might easily move from a horizontal strategic group to a vertical strategic group by leveraging its investment in the core CRM software. The additional costs of moving into vertical markets with a customized CRM product are within reach of many market participants.

Diversity in strategies between industry firms raises rivalry as firms compete on different terms with each other and encounter each other in competition for customer business. For the CRM industry as a whole, there is a high diversity in strategies and firm origins. The key attributes for segmentation are largely:

- Segmentation by customer size (small, mid-size, and large enterprise)
- Horizontal and vertical market segmentation
- ERP-CRM vendors

The critical variable is the number of possible vertical markets. However, since vendors tend to compete in strategic groups, the diversity relative to the firm's own strategic group is moderated and therefore would offer a moderate level of rivalrous behaviour.

2.7 Competitors vary widely in relative strength

In any strategic analysis, an assessment of the market competition is necessary. In this analysis, competitors from inside Maximizer's strategic group as well as competitors from outside the group will be reviewed in the context of Maximizer's own. The review will expose opportunities for position within the existing group, where a review of competitors outside of the group will suggest the ability for those competitors to enter the firm's group. Appendix D describes a competitive functional analysis that compares the firm's functional product capabilities to those of selected competitors from multiple strategic groups.

One approach to describing the relative competitive position of competitors is to construct a matrix comprised of competitors and value propositions (Collis & Rukstad, 2008) in the strategic group that Maximizer operates in. In this analysis, the following key success factors and related value propositions for each are considered:

1) 3rd Party Add-Ons – this factor describes the availability of additional product capabilities that may be purchased separately to increase the functionality of the product. Increased functionality can increase the value of the solution to the customer.

2) Customization – this factor describes the ability for a customer or vendor to modify the product to fit the unique needs of the customer. Unique fit and functionality can create distinctive competitive advantages for the customer.

3) Network Effects – this factor describes the existence of technologies offered by the vendor that complement the CRM platform from that vendor. Examples include other applications, databases, ERP, operating systems, and hardware platforms that reduce the cost of integration.

4) Experience – this factor describes the CRM market experience of a particular vendor. This offers customers reduced risk and cost of implementation and can combine with customization to create competitive advantage for the customer.

5) Price – the most common factor in a customer's buying decision. A lower price increases the number of prospective customers and increases the tangible value for the customer.

6) Brand Value – the degree to which a customer will be attracted by the brand. A strong brand offers a perception of reduced risk in software project deployments of which an estimated 68% fail (Ellis, 2008).

7) Base Features – the ability for the vendor to deliver on the basic CRM features expected in the solution. Strong base features provide immediate value without the need for customization.

8) Vertical – the availability of pre-packaged customizations from the vendor or their channel partners. The availability of vertical offerings enables firms to

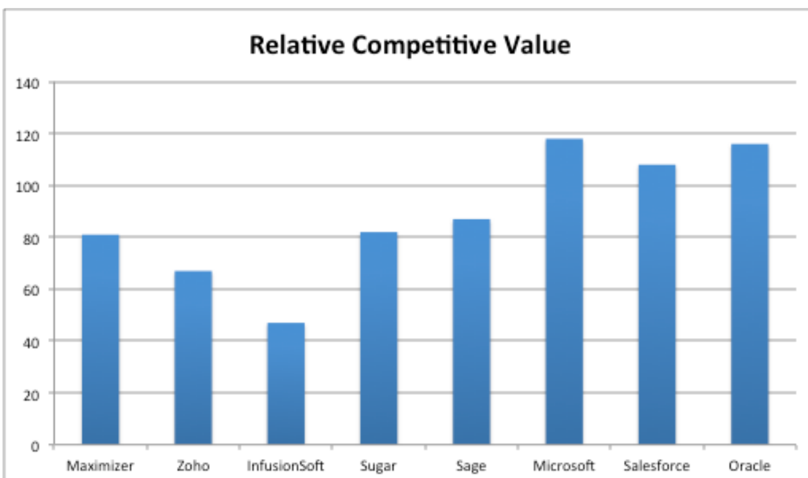
increase customers’ willingness to pay and the ability to target specific vertical industries with stronger value propositions over horizontal competitors.

Table 2 describes a weighted relative competitive value for each firm according to the key success factors in the market place. These criteria show why the firm experiences significant competitive intensity in its current strategic group.

Table 2: Relative competitive value of firms in the CRM industry

Attribute	Weight	Maximizer	Zoho	InfusionSoft	Sugar	Sage	Microsoft	Salesforce	Oracle
Vertical	3	6	3	3	6	6	15	15	15
Base Features	4	12	12	16	16	16	20	20	20
Brand Value	4	12	8	4	12	16	20	20	20
Price	4	20	4	4	12	16	16	16	20
Experience	3	3	9	3	3	3	15	3	15
Network Effects	3	12	12	3	15	15	15	15	15
Customization	3	12	15	12	12	9	9	9	3
3rd Party Add-Ons	2	4	4	2	6	6	8	10	8
		81	67	47	82	87	118	108	116

Source: Author



Source: Author

Figure 7: Relative competitive value of selected CRM competitors

2.8 Strategic Positions in the CRM Market

Michael Porter’s work on competitive position (Porter, 1980) suggested three strategic positions for any organization: Differentiation, Cost Leadership and Focus.

Porter's proposition was that in order to be effective, firms must choose one strategic position in trade-off to the others in order to avoid dilution of resources and desired outcomes. Figure 8 illustrates these positions in relation to strategic advantage and strategic target.

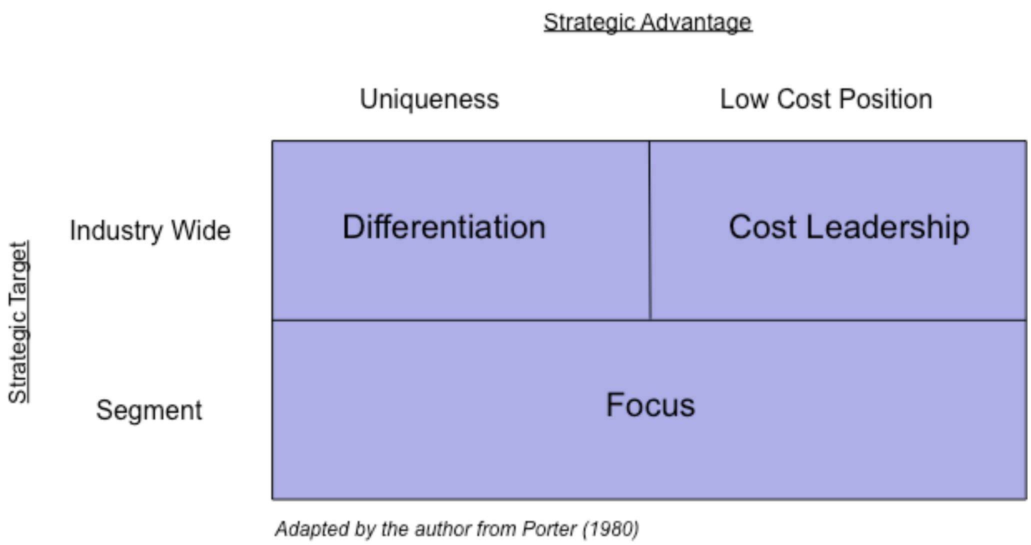


Figure 8: Potential strategic positions

Horizontal market participants pursue either a *cost leadership* position through operational effectiveness (e.g., tight cost-control and cost-minimization) or a *differentiation* position (e.g., providing new features or a unique delivery system). Pursuing a cost leadership position forces companies into being operationally efficient where the business must continually lower their cost of production and customer acquisition to keep up with a declining willingness to pay on the part of the customer.

The difference between strategic position and strategy should be noted: cost leadership is not a "strategy" per se. It does not require a firm to perform different activities, but rather perform them more effectively than rivals (Porter, 1996). Differentiation can reduce the size of the rivalrous group of the firm and raise the customer willingness to pay, and requires that a firm perform different activities than its competitors. In this respect, differentiation is both a position and a strategy.

Market participants pursue a *focus* position where the vendors can choose to sell their product to a narrow market segment. Pursuing a pure focus strategy enables companies to learn about and serve the needs of its specific markets better than a horizontal participant. A pure focus strategy however does not necessarily imply differentiation. For example, a firm may open an office in a new geography such as China in order to sell the same products to that market without differentiating its products.

It is also possible to 'filter' a differentiation or cost leadership strategy through a focus strategy for greater strategic leverage. Firms pursuing a differentiation strategy in a particular vertical market are often creating unique versions of their product designed to meet that market's requirements. This can also be described as a "customer intimate" (Treacy & Wiersema, 2000) strategic position where firms pursuing both differentiation and focus seek an ever-narrowing definition of their customer market in order to more precisely deliver what a customer needs. A narrow market definition (focus) combined with differentiated products raises both the customer's willingness to pay and creates smaller more defensible markets for which competitors are more easily discouraged from entry.

As a horizontal market participant pursuing large enterprise customers, Oracle takes an *industry-wide differentiated* position. Oracle leverages a unique ecosystem based on their dominant position in large enterprise database software that has also helped make it a close second in large enterprise ERP software market share. These two leadership positions attract existing large enterprise Oracle customers to their CRM offering. A growing number of vendors have a similar offering: SAP and Microsoft are examples of other vendors capable of a similar offering. Vertical markets have ERP solutions specific to their markets in which some vendors are also providing CRM add-ons. In this manner, ERP vendors' strategy depends on a type of network effect from their own products within an individual customer.

A relatively new horizontal market participant, Zoho takes what is an example of an *industry-wide cost leadership* position in the market. Based in Chennai, India, Zoho began as a network framework provider in 1996, transforming into an IT management software vendor in 2003 and then pursuing SaaS-based office productivity software, accounting, and CRM software. Its distinctive competitive advantage is the access to a large number of low cost development resources in emerging economies. Zoho does not differentiate itself through functionality in the manner of a vertical market focused firm. As a new entrant, it cannot depend on an existing customer base for prospects as Oracle or Microsoft might. It does not yet have the critical mass to attract partners to its platforms in the vast quantities of SFDC. So its current option is to take a cost leadership position. Zoho has signalled this position by provisioning basic functionality, low pricing, and depending on its use of development facilities in India and China. Its strategy depends on its ability to drive out a large number of applications with relative speed and lower sunk costs.

Vertical market participant NexJ takes a *differentiated-focus* approach to vertical markets in Financial and Health markets. As a result, they focus their efforts learning how to deliver solutions for the unique complexities of two highly regulated industries. Customers may select a vendor with vertical focus like NexJ over horizontal solutions where they can reduce the costs and risks associated with necessary customization, and where the vendor understands any unique success factors for doing business in those markets. NexJ depends on a strategy of raising the customers' willingness to pay based on its tailoring to fit those markets' specific business methods.

Pavliks Corp. presents an alternative approach to vertical market participation with another *differentiated-focus* approach. Pavliks partners with Microsoft to utilize the Microsoft Dynamics CRM product as a platform on which they provide vertical market specific customizations for the associations and sports management markets. In this respect, Pavliks raises the customer's willingness to pay above that of the basic Microsoft platform to earn profits. Pavliks will avoid the barriers of entry from sunk costs to produce the core platform and enable it to enter quickly. It should be noted that this approach cedes control of the base platform to Microsoft along with the economic value from that part of the value chain. It also risks backward integration should Microsoft decide to enter its markets. Pavliks' capabilities and customer satisfaction will be heavily dependent on its partner Microsoft's ability to respond to the market's needs. Microsoft benefits substantially from this partnership particularly as partners like Pavliks 'pull-through' sales of Microsoft CRM and other supporting Microsoft products. Microsoft also benefits by avoiding developing separate business divisions as suggested by Porter for companies pursuing a segmentation strategy (Porter, 1980).

Much like Oracle's own strategy of leveraging its database and ERP leadership, Microsoft's own industry-wide differentiated CRM strategy depends on customers that perceive integration advantages with other Microsoft products. Microsoft's leadership in office productivity applications, mid-market ERP and mid-market database businesses makes it particularly attractive to the mid-range market. In this manner, Microsoft differentiates itself from Oracle and SAP to compete in a different strategic group.

Salesforce.com (SFDC) operates with a strategy that began as an *industry-wide cost leadership* strategy and migrated to *industry-wide differentiation* strategy. As an early market entrant for cloud-based CRM in 2007, SFDC's offering gave it a significant cost advantage over incumbent client-server competitors' licensing schemes. This enabled SFDC to grow to a dominant position quickly. Normally, SFDC's original cost leadership market position would be under intense pressure from new cloud-based entrants and existing CRM market vendors producing competitive cloud solutions. The company benefits from indirect network effect arising from its rapid acquisition of customers being an early market entrant for cloud CRM. These network externalities support a market for complementary add-ons delivered by 3rd parties through the SFDC online "app store". The store now has over 1,700 applications available for the SFDC CRM "platform". Unlike Microsoft's strong partner-based strategy, SFDC provides a number of vertical market customizations directly, bypassing its partner network and retaining more of the economic value available from a larger part of the value chain.

Today, SFDC differentiates through its app portal as well as through its vertical market offerings.

Maximizer currently occupies an industry-wide space and from lack of significant differentiation it is forced into an *industry-wide cost leadership* position. Its products are minimally differentiated, and as a result experience a nominal ability to extract economic rents from its products. It does not have a platform capability at present through which it can compete with others pursuing a platform strategy. Although Maximizer supplies no vertical market specific functionality at present, 57.3% of its total revenues come from three vertical markets: financial, manufacturing, and services industries. The firm delivers approximately 90% of its business primarily directly, with about 10% indirectly through channel partners.

2.9 The effects of political, economic, social and technology trends

Exogenous factors at a macroeconomic level can have significant effect on the industry and prospective entrants. This section will summarize the political, social, economic and technological factors affecting the industry. Table 3 describes the influences on these four factors.

Table 3: PEST Analysis

Political Factors (o)	Social/Demographic Factors (+)
Data Surveillance Laws (-)	Aging Population (-)
Continuing Trends in Free Trade (+)	Globalization of Skills (o)
U.S. Budget Battles (-)	Continuing Environmental Concerns (o)
Immigration (+)	Geo-Cultural Differences (-)
Government Incentives (+)	Scaling Customer Intimacy (+)
Patent Laws (o)	Social Responsibility (+)
Economic Factors (-)	**Technological Factors (o)**
Low Economic Growth (-)	Disruptive Cloud Technologies (o)
Continuing Low Interest Rates (+)	Outsourcing Trends (+)
High Unemployment (o)	Hypermobility (+)
Rising Debt Levels and Taxation Trends (-)	Open-Source Technologies (-)
E.U. Debt Crisis (-)	Patent Wars (-)
Rapidly Growing Economies (+)	
Disintermediation of Access to Capital (-)	

Source: Author

2.9.1 Political factors are neutral to the market

Markets continue to open up as major economic trading zones that include those in North America, South America, the European Union and Asia continue to negotiate free trade agreements between each other. The effective application of free trade agreements opens markets and serves to reduce the costs of materials to the level of the lowest cost provider, making firms more competitive globally.

Data surveillance laws have gone through significant changes around the world driven by concerns over domestic and foreign acts of terrorism, and through intense lobbying efforts of intellectual property holders concerned about the piracy of electronically-transmitted goods. Countries and blocs such as the U.S., Canada, the U.K., and the E.U. have moved to give more access to various levels of law enforcement. Although most countries maintain laws that enable them to obtain records under the scrutiny of their own courts, the Foreign Intelligence Surveillance Act (FISA) in the U.S. is an example of extending that surveillance to warrantless search as it relates to non-U.S. citizens (Macleod, 2013). FISA explicitly provides the U.S. government the ability to access customer data of non-U.S. organizations held by U.S. firms' cloud-based facilities anywhere in the world including on U.S. soil. This issue places constraints on the ability of U.S. cloud data hosts to do business with non-U.S. countries and creates a distinctive competitive advantage for non-U.S. companies delivering cloud-based solutions.

Budget battles between the Democratically-controlled Senate and the Republican-controlled House of Representatives continue to create disruption and uncertainty. In February 2013, failure to reach agreement on the U.S. budget led to automatically-triggered budget cuts in government that are expected to affect U.S. growth by ½ of one per cent in FY2013 (The International Herald Tribune, 2013). Repeated failure to effect a long-term agreement could see this scenario repeat itself, putting further pressure on the still-recovering U.S. economy.

Until recently, the U.S. had been limiting work visas for non-immigrant temporary workers. The H-1B visa was a popular tool used by U.S. firms to import highly skilled talent from outside into the U.S. Recently, the U.S. announced plans to double the number of available permits to 68,000 per year (India Today, 2013). This move may attract more skilled technology workers from lower cost jurisdictions that may lower the costs for software companies without resorting to more risky outsourcing strategies.

Government incentives are relatively stable. In Canada, firms have access to Scientific Research and Experimental Development (SR&ED) tax credits, which cover expenditures related to development of innovations and new technologies that offset the costs of R&D for software companies. These programs are mature and relatively stable, but there are always risks that governments may experience unexpected revenue shortfalls that may place these programs at risk.

Patent and intellectual property protection is changing with a desire for global harmonization of patent law. The WTO is working on the Madrid protocol that will eventually see some form of harmonization if not a reduced cost. However, the harmonization protocol does not affect the existing patents already awarded. It may however make it easier for a firm to perform patent searches in a single jurisdiction rather than repeat a process at vast expense in many jurisdictions. It may also increase the competition for patent protection, as domestic firms will lose their natural advantage gained from being in country.

2.9.2 Economic Factors present a barrier to entry

Continued softness in key global economies continues to limit business growth. However, the CRM market itself is projected to experience continued healthy growth. This may be due to the increased desire on the part of customers to find ways to automate (do more with less) and to differentiate themselves in an increasingly competitive global economic market. In a soft market, customers will tend to be more price-sensitive, favouring firms that can establish stronger price/performance value propositions.

Continued low interest rates designed to stimulate the economy provides access to low cost capital for business expansion. It would be best for organizations that can establish effective uses of capital to take advantage of these conditions to modernize their software platforms. For example, using low cost capital to fund a more rapid transition to the cloud and raise the level of functionality above the average for the firm's strategic group.

High unemployment and worker uncertainty will continue to put downward pressure on payroll costs and increase availability of human resources that the industry is dependent on. This may be offset somewhat by the reduced consumption by consumers that drive business expansion and purchases by the industry's customers.

Rising debt levels by governments are seeing increases in taxation that would affect industry directly as well as the industry's customers. This may result in reduced spending or price sensitivity that would lower the industry's profitability.

The E.U. debt crisis continues with the most recent situation in Cyprus creating instability in financial markets. This may create more barriers to borrowing for firms globally and causing businesses to reduce their expectations for growth and spending on the industry's products.

Rapidly growing economies like Brazil, Russia, India and China (BRIC) provide both opportunity and risk for the industry. Opportunities present themselves as these markets develop larger domestic consumer economies and therefore drive business growth and demand for the industry's products. At the same time, these economies are sources of low cost skilled workers that can either act as inputs into the industry or enter as rivals with a lower cost base that would threaten existing participants.

The advent of crowd funding[6] websites has created new opportunities for acquiring capital for both new start-ups and projects inside existing companies. This new option for raising capital may give rise to new entrants previously deterred by the barrier of capital required to enter the market. Existing entrants may also use this approach to access capital for expansion that would otherwise not be available, or access at a lower cost.

2.9.3 Social / demographic factors make the market attractive

An aging domestic (U.S./Canada) population is reducing the availability of new skilled human resources. Over time, this may give rise to increases in domestic payroll costs. It may increase the necessity to pursue offshore outsourcing or acquisition of foreign workers on work permits to improve access to required talent. At the same time, the aging population is creating demand for new businesses that support this demographic shift: the care home industry is just one example of an industry that benefits and consumes the CRM industry's products.

Globalization of a skilled workforce that does not necessarily have to reside physically in the same location as the firm suggests access to resources at the lowest possible costs. This also suggests that firms lacking a strategy for managing out-of-band resources may suffer competitively as rivals take advantage of these resources.

Continuing environmental concerns have spurred growth in new technology-intensive industries. These industries consume the CRM industry's products and create opportunities for new business growth.

[6] Crowd-funding is the disinter-mediating process of acquiring capital for companies or projects that bypass traditional sources of capital such as banks, venture capital, and high net worth investors (angel investors)

Geo-cultural differences place pressure on firms as they seek to expand into wider global markets. These differences will require that industry firms understand different cultural contexts in order to be successful.

Consumers are continuously demanding improvements in the way they connect with the companies they do business with. Customization, personalization and localization are all keys to successful business growth. These trends are spurring above-market growth rates in Marketing Automation that are opening up opportunities for new CRM vendors. Social media has exploded as a source of customer preference data and customer support connections. As a result, firms are scrambling for solutions that integrate with their CRM platforms to accommodate these new customer touch-points. Automated customer self service and marketing communications are enabling firms to create customer intimate experiences in a scalable fashion.

2.9.4 Technological factors are neutral to the market's attractiveness

The most significant factor affecting the industry is the transition to cloud technologies. As previously stated, incumbent firms will need to increase their R&D investments to migrate their client-server technologies to the cloud. New market entrants will find lower barriers of entry but also an increasingly crowded competitive space with fewer opportunities for differentiation.

Outsourcing trends continue in the market with most firms either developing or operating some form of outsourcing strategy to take advantage of the lowest cost of resources for their value chain. The availability of these resources in multiple geographies around the world suggests that this will remain an opportunity to lower costs for incumbents and decrease barriers of entry for new entrants.

Mobile computing based on the increasing sophistication of smaller and more portable devices has driven significant industry growth. Early adopter customers appreciate the value of CRM but operate on out-dated platforms that need to be upgraded to take advantage of mobile technologies. Customers are looking to mobilize their sales teams as well as grant self-service capabilities to their own customers, presenting new opportunities for the CRM industry.

Open-source technologies continue to emerge in all sectors of the software industry including for CRM. Tools such as Zurmo[7] will create no-cost platforms on which third parties can sell services or develop customizations to enter the market without the barriers of entry previously required. These types of projects present threats to existing vendors and may discourage new platform development by future market entrants.

Patents have taken centre stage in the technology industry as firms rush to develop libraries of protected intellectual property. There remains debate over whether these are defensive or offensive postures. The CRM market has had few examples of offensive use of patents so far, but watching firms like Salesforce.com accumulate over 160 patents does create some concern. Should the need arise to acquire or license patents to participate in the market, this would create a significant barrier for new entrants and increase the costs of existing participants.

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[7] Zurmo is an open-source CRM project located at www.zurmo.org

2.9.5 PEST summary

In summary, the political environment is largely neutral to industry. Economic factors are currently negative largely due to the global economic downturn that continues driven by lacklustre U.S. and E.U. economic performance. Social factors favour the industry slightly driven primarily by the demand for more customer intimate behaviours that align well with the capabilities of the CRM industry. Technological factors are largely neutral, with the disruptive nature of cloud computing and open source threats offset by lower costs of outsourcing and the demand for mobile CRM capabilities.

2.10 Market summary

The market is moderately competitive and has room for additional participants. New entrants appear regularly in both horizontal and vertical CRM markets. The influx of new market participants who enter into the market at a horizontal SMB space will pressure existing SMB-focused vendors to expand into or move entirely into a different strategic group. The healthy expectations for market growth into 2016 and availability of a large customer base that has yet to adopt CRM will continue to attract investment and new entrants. This will pressure incumbents to expand their offerings beyond the basic functionality both for horizontal and vertical markets.

Vertical market offerings raise the customer’s willingness to pay beyond that of a horizontal platform. The narrower the definition of the customer market, the more easily defensible the market is from vendors that may not find it cost-effective to enter. Platform positioning is creating new competition in vertical markets by firms who enter with vertical market customizations based on an existing horizontal CRM platform. Vendors who develop their own horizontal CRM platform may be more competitive participating directly in vertical markets than those who depend on other vendors for their platform. Vendors considering expansion into vertical markets will consider development on an existing platform to get to the market quicker at a lower cost. Time to market may be more important than owning all parts of the value chain. Early entrants can use learning curves to create a barrier through cost advantage that discourages entry.

The positioning of the core CRM application as a platform on which customizations and add-on products can both leverage and feed into network effects is being exploited by some horizontal market vendors. This strategy can develop significant network effects pulling through CRM platform products for the vendor via the activities of a network of platform customization partners. It also enables vendors to distribute the costs and demands of pursuing vertical markets out to the channel partner network.

The transformation from client-server to the cloud represents both disruption and opportunity. Cloud represents disruption in the context of incumbents' cash flows and added development costs. Cloud transformation represents opportunity to overtake incumbent competitors in the race to reproduce their functionality in a SaaS/cloud product. The movement to cloud platforms has also raised new issues related to government intrusion and data privacy that may be exploited with prospective and current CRM customers. Although the cloud represents a lowering of entry and exit for customers, barriers of exit can be raised through customization and vertical-specific offerings, as well as efforts supporting long-term customer retention. Incumbent vendors will be wise to complete their transitions quickly to eliminate the cost disadvantages of maintaining client server products and to move through the temporary phase of disrupted cash flow. For vendors not operating their own cloud datacentres, diligence in negotiating hosting costs will have a direct effect on the firm's competitiveness and should be monitored carefully.

Vendor brand value is driven significantly by information available on the Internet as well as by trusted advisors. Large brands such as Microsoft, Oracle, SAP and Salesforce.com present a significant brand value barrier that is not cost effective for most other participants to duplicate. Consequently, other smaller brands must compete on reputation and with costly marketing activities. These activities might include engaging influential bloggers, industry analysts, Internet search optimization, and other web-based activities that will bring the firms to the attention of buyers. It might also encourage the use of direct sales teams as well as diverse channel partner networks.

An effective strategic position is essential and must take into account the ability of the firm to effectively resource that position. Along with strategic position is the careful selection of strategic groups in which to compete. Whereas occupying more than one strategic position is typically discouraged (Porter, 1996), it is entirely possible to select multiple strategic groups in which the firm will successfully compete. This will encourage vendors to focus their limited resources for maximum effect. The available positions in the CRM market are few. Microsoft and Oracle occupy a differentiated technology leadership position in mid-market and large enterprise. Salesforce.com occupies a cost leadership position at scale that is beset by new entrants lowering profits in order to gain share. A customer-intimate, differentiated focus position remains one of the few cost-effective and defensible strategies available to pursue.

3: Analysing Maximizer's internal characteristics

This section will describe the sources of and barriers to the firm's ability to earn above-average profits over an extended period of time (aka, "competitive advantage"). In this chapter, the firm's existing activities and resources will be reviewed to understand how the firm creates value for its customers. An analysis of how the firm interacts with competitors and collaborators in the market will show how the firm uses these relationships to its advantage. Finally, an assessment of the sustainability of the firm's competitive advantages will be considered. From this analysis, strategic options will be developed.

3.1 Analysis of the firm's resources

This section considers the resources available to the company that enable it to produce its products and create competitive advantage. These resources include cash, capital and borrowing capacity, physical assets, human resources, intangible assets and long-term contracts.

3.1.1 Cash, capital and borrowing capacity is strong

The company's chairman, Terence C.Y. Hui, owns Maximizer amongst his holdings. Mr. Hui's family owns Concord Pacific Group Inc., a privately-held company with assets estimated to be as much as $8 - $9 billion (Konotopetz, 2005). Specific to the firm, Mr. Hui has made it clear that he is willing to provide the firm with access to capital under the right circumstances. In this respect, the company's access to capital backed by Mr. Hui's assets and reputation are strong.

3.1.2 Physical assets are limited

The firm does not own any significant assets. Plant and equipment for FY2012 was $367,181 – a change of only -2.5% from FY2010. The company is dependent on human resource inputs for producing intangible intellectual property in electronic form. Physical assets do not play a significant part in the company's operations aside from workspace and commodity technologies required in its operations.

3.1.3 Human resources are a key asset

Human resources are the most significant component of the company's value chain inputs. The company employs 54 people in its Vancouver, Canada headquarters, with five people in its Australian operations, and six more in its U.K. operations. Canadian operations contain product management, software development and professional services teams, as well as direct sales, customer service, and technical support.

Unlike many of its competitors, the company currently does not have any contracts with firms supplying human resources such as outsourced software development services.

The company's headquarters located in Vancouver, Canada provide it a moderate level of access to skilled resources required to produce the company's products and deliver its services. The city's cost of living is among the highest in the world and has a significant effect on payroll expenses and commensurately the competitiveness of the firm.

The technical R&D and professional services resources are highly skilled and experienced, and are largely long-term employees that have been with the firm for many years. This benefits the firm in two respects. First, Maximizer delivers most of its customer services directly, retaining and leveraging knowledge gained from customer engagements within the firm. This provides a competitive advantage for the firm where many competitors rely largely or exclusively on third-party firms for professional services delivery. Second, the retention of long-term research & development talent provides the company with significant intrinsic market-related knowledge that is difficult to obtain and is not learnable in a classroom.

The firm's Canadian management team is strong and experienced. Vivek Thomas, CEO, has over 23 years of global management experience at Sony, Business Objects, FrontRange Solutions, and has been with Maximizer Software since 2002. Desmond Bristow, Director of Professional Services, has over 15 years of experience working in CRM professional services delivery at Pivotal Corp., Akirlu Consulting Ltd, and Maximizer Software. Neal Cranna, Director of Marketing, has over 13 years experience in software technology marketing at companies including Maddocks Systems, ACL Services, and Maximizer Software. Dennis Boulter, Vice-President of Sales – Americas, has over 30 years experience in sales and business management at companies such as Merisel, Lexmark, Selectica, EMC, and as a co-founder of Actenum Corp. With over 80 person-years of experience in the technology sector, the management team is strong, enthusiastic and committed to transforming the company into its next phase of growth.

3.1.4 Intangible technology assets are the firm's core product

The firm's primary asset is the software code for its Maximizer CRM software and related complementary products. The company has not applied for patents for its intellectual property.

The Maximizer brand is well known in the SMB sales force automation and CRM markets. It continues to be recognized as a brand with an excellent price/performance value proposition ranking #2 in a recent survey of CRM solutions for the small business market (Info-Tech Research Group Inc., 2013).

The firm's financial reputation is strong due to the relationship it has to its owner who also shares ownership of one of the largest property developers in North America.

The strategic reputation of the firm is less strong as it has failed to capitalize on its earlier leadership position in the CRM market to take advantage of the market's growth over the past decade.

3.1.5 The company is overly dependent on its existing customers

The company has no significant long-term contracts that guarantee income. Customers on subscription contracts can exit with relative ease and low exit barriers. However, it does have over 6,800 active customers using over 18,000 software licenses and enjoys a current maintenance renewal rate of approximately 90%. 82% of the company's business comes from existing customers. This demonstrates a significant weakness in the firm's ability to generate revenue from new customers. Existing customers purchasing additional licenses will generally purchase fewer licenses than new customers buying for the first time. This may also cause the firm to over-emphasize development for its existing customer base and forego development of products and features that attract new customers and new growth.

3.1.6 Resource analysis summary

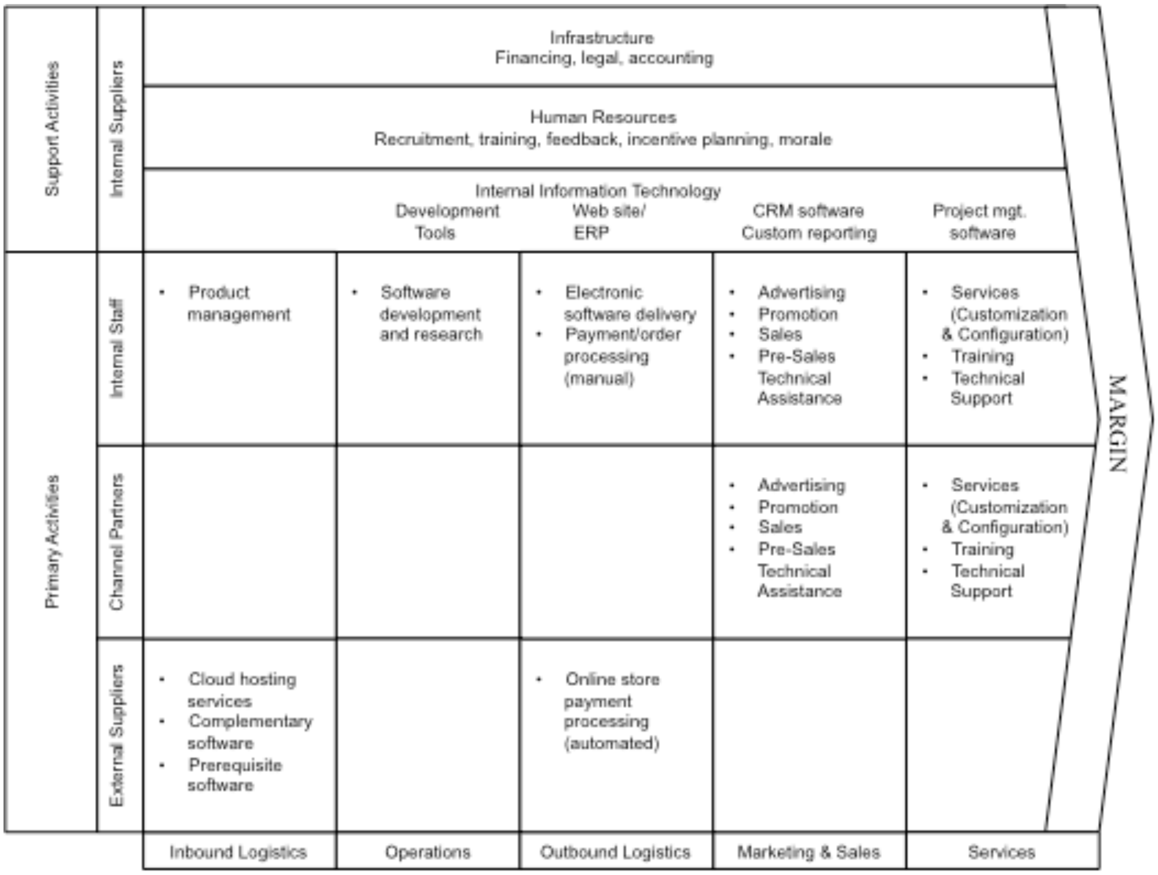
The firm has few competitive advantages in resource terms. It is somewhat hampered by the relatively higher cost of human resources based in Vancouver, Canada. It has no protected intellectual property, nor does it have significant physical assets. The firm's primary asset is its intellectual property in the form of software code.

The company is one of the oldest firms in the CRM industry that contains a significant degree of experience in its long-term employees, providing a reduced risk of project failure for the firm and its customers. The firm also benefits from a strong financial reputation and access to capital inherited through its ownership. Its software maintenance renewal rates although lower in the past, have been improved to approximately 90%. The firm enjoys a strong brand value proposition in the small business sector. Finally, its management team is experienced and capable of initiating new strategies to renew the firm's growth.

3.2 Description of value creation at Maximizer

A value chain analysis is useful in describing how effectively the firm uses its activities to create value. The activities in the chain are then categorized as contributing to cost or differentiation advantage, and finally benchmarked against the firm's competitors. Table 4 illustrates the activities involved in value creation at Maximizer.

Table 4: The process of creating value at Maximizer



Source: Author, Adapted from Duncan, Ginter, and Swayne, 1998

3.2.1 Support activities for Finance, Legal, HR, and IT

Support activities are indirect activities that support the primary creation of value. Support activities are all necessary activities but are there to support the activities directly involved in value creation. For example, HR provides a service to R&D by identifying, qualifying, hiring and on-boarding software programmers that create the company's software products directly. The IT organization acquires, installs, configures, and manages the internal company technology on which the R&D team produces the company's software. The company's Finance team applies accounting standards and uses technology in order to process customer payments, pay creditors, and pay the company's R&D team so that they continue to develop the firm's products.

3.2.2 Product management is in-house

Product management is responsible for interpreting the market requirements document (MRD) delivered by Marketing. A product manager will review the MRD and produce a product requirements document (PRD) that translates and prioritizes the MRD into instructions for the research and development team. In this respect, the product manager is responsible for managing the product lifecycle. The degree to which a product manager can effectively select and prioritize the product features to be developed by R&D is a key factor in the market's response to a new software release. A well-defined product combined with a well-produced product will be attractive to prospective customers and raise customers' willingness to pay. This position has been vacant for an extended period of time at Maximizer. In lieu of a product manager, the R&D team has taken the responsibilities of product management. This represents an area of strategic weakness for the firm as it produces a conflict of interest within R&D, potentially biasing in favour of internal interests over market-driven product requirements and prioritization.

3.2.3 Complementary software dependencies

In order to operate the company's products, a customer requires a license for Microsoft's SQL database software. Maximizer has partnered with Microsoft to acquire these licenses and include them in the sale of the Maximizer Enterprise edition CRM software. This adds as much as 25% of the total cost of acquisition. For Microsoft, this is an example of their strategic advantage over Maximizer in owning part of the firm's value chain. Salesforce.com has pursued a strategy of using open-source database software and customizing it to suit their purposes. In order to protect them from patent lawsuits however, Salesforce.com has had to invest heavily in their patent library of over 160 patents and has incurred significant legal costs associated with defending their database patents from Microsoft. Maximizer avoids this risky strategy by purchasing Microsoft SQL Server licenses outright for resale to their clients.

Other complementary software products can be integrated with Maximizer CRM to enhance the system's capabilities. Maximizer does not provide built-in quoting functionality or advanced marketing automation and social media analytics capabilities, and will recommend complementary external vendor products to its customers. In some cases, there are strategic relationships with vendors such as Hubspot that pay Maximizer on the sale of their products to Maximizer customers. This enables Maximizer to gain part of the value chain for that product without the pressure of having to develop its own product to fill that requirement. At the same time, this causes Maximizer to surrender more of the available value chain that it might otherwise capture if it had its own similar product. This represents an opportunity for the firm to expand the value it captures by replacing these third-party complementary products with its own.

3.2.4 Cloud hosting services are outsourced

In order to operate its software in the cloud, the company has chosen to purchase the services of a cloud provider instead of building and operating its own cloud facilities. Currently it sources its public cloud platform from Microsoft. The company has two large customers, the Canadian House of Commons and Manulife Financial hosted on private hosting services located in Canada. The same single Maximizer CRM Enterprise software is used to operate public multi-tenant cloud, private single-tenant cloud, and on-premise single-tenant cloud deployments, providing a competitive advantage over firms such as Salesforce.com, Zoho and other public-only cloud CRM products. These customers who are concerned about warrantless access to company data by foreign governments can choose to operate Maximizer's software using on-premise or private cloud methodologies to protect their data. Government and Financial sector customers are particularly sensitive to this issue and present market opportunities for Maximizer.

3.2.5 Software research and development is in-house

Maximizer employs highly trained and specialized developers with many years of software development expertise in the CRM business. Some developers at Maximizer have been with the company for over 15 years, amassing a wealth of knowledge and advantage for the firm. The process of development is complex. Developers must not only have the skills, but also the experience with the latest technologies. This enables the company's software to operate on the most current version of operating systems and browsers on which the company's software depends. Developers also need to have experience with connecting (integrating) with other enterprise software applications. In this respect the company depends on specialized talent that is more skilled than the average software developer, but is similar to those resources used by its competitors. The key advantage that Maximizer has here is the longevity and loyalty of its development team that reduces the firm's risks and costs of development.

3.2.6 100% electronic software delivery

The company sells software and services exclusively. There are no hardware products manufactured or sold by the company that would require a more complex supply chain. The company has developed its own proprietary licensing tool in order to facilitate the secure and authenticated distribution of its software. This secure methodology requires that a user "authenticate" their software with a scheme that has the user's computer connect with Maximizer's authentication server. This scheme validates that the software is a true and license-compliant version and limits the possibility of unauthorized or unpaid use of the software. This is a common scheme used by the firm's competitors and in this regard Maximizer is competitive.

3.2.7 Payment processing is outsourced

The company utilizes outside firms to process credit card payments for its software. In general, the company extends credit for larger sales of over $5,000 with all other sales made by credit card or prepaid cheque. Since the company's average transaction size is under $5,000, this significantly reduces the company's DSO (27 days) and improves cash flow in return for surrendering a small percentage (3%) in transaction processing fees. Competitors serving larger markets will have a significantly longer DSO: for FY2012 Salesforce.com's average DSO was 72.5 days. Microsoft in the same period was 60.7 days. Maximizer's DSO provides a competitive advantage over these key rivals.

3.2.8 Advertising and promotion is performed in-house

The company primarily depends on leads generated from Internet-based marketing activities, online product webinars, and regional product seminars. Maximizer generates a small percentage of its lead generation from external channel partner marketing activities. The company has reduced its overall marketing spend in recent years in an effort to reduce overall expenses and maintain profitability. Today, activities include search engine optimization, refining and updating the corporate website, developing case studies and white papers, and electronic email marketing campaigns.

3.2.9 Sales and pre-sales technical is performed in-house

The firm employs an internal sales team that sells directly to end-user business customers. This sales team is segmented into three different groups by the size of customer – small, mid-size, and large customers. The sales team is further segmented by "new" and "existing" customers to better align with specific sales skill sets. Each team requires a different level of sales experience but generally involve salespeople with 5-7 years of experience and are thus readily available.

The new customer sales team responds to leads from Marketing and qualifies prospects into or out of a defined sales process. The majority of leads generated by Marketing are inquiries from customers filling out forms on the company's website or on the sites of third parties that discuss CRM related topics. The conversion rate of leads to completed sales in FY2012 was approximately 20%, considered low for comparative sales by software companies of similar size and quality of leads. This is an area of weakness/opportunity for the company that must be addressed.

The sales process utilized by the firm is a common process used to identify business pain and match with the firm's capabilities and key value propositions. The firm's key value propositions are:

1) Highly configurable sales force automation functionality with high functional benefits for customers' sales teams;

2) The company's 25 years experience in the CRM market that enables it to leverage its knowledge of industry, customer requirements, and application integration to lower the costs, time-to-market, and risks involved with software deployment and customization;

3) The availability of a wide range of deployment methods that enable firms to protect their data from surveillance by foreign governments;

4) The relative price/performance value of the solution is higher than larger market participants such as Microsoft and Salesforce.com.

The firm employs a channel manager that recruits and manages a network of indirect channel partners that resell the company's software and provide their own post-sale services. There is minimal diversity in the firm's channel sales program, dominated almost exclusively by systems integrators offering customization and integration services. There are a number of opportunities for expansion of the channel program left unexploited. This is another area of weakness/opportunity for the company that must be addressed.

The company operates a hybrid relationship with its channel and direct sales teams, encouraging its direct sales teams to work on sales opportunities with indirect channel partners. In this manner, the company hopes to increase the sales and services bandwidth and geographic reach of the firm. Maximizer provides the opportunity for higher margins for the partners than the 17% available from Microsoft. Salesforce.com provides standard margins of 10% compared with upwards of 30% for Maximizer partners. Maximizer also offers annuity margins on maintenance renewals for its partners' customers that are higher than its competitors. This program is relatively rich and has been underleveraged by the company in its efforts to develop a high-quality partner channel network. The increased value for channel partners represents a potential area of strategic advantage for the firm.

3.2.10 Professional services are delivered directly and indirectly

The company offers a minimally functionally differentiated product from that of its competitors and uses professional services in order to create above-average value.

Most competitors in the market offer the basic functionality expected of market participants. In order to maximize the benefits of their investment, customers engage the firm to configure and customize the software to fit their business. The firm provides these services based on an hourly rate of between $150-$200 per hour with gross margins of 75% or more. These services automate and deliver uniquely better customer facing experiences for customers, developing distinctive competitive advantages for their own markets.

The company has developed an advantage over some of its competitors by delivering the bulk of professional services through its own in-house services team. This enables the company to capture and retain experiential knowledge that can be leveraged in product management, R&D and in future professional services engagements with lower risk and cost.

The company's customers may optionally choose to have their professional services performed by a channel partner. This can be advantageous to both the customer and the company. The customer gains a geographically close partner that can physically visit their premises as required. This partner will often stay in closer contact with the customer and can service more than just their CRM needs. Maximizer benefits by extending its ability to support more customer deployments than it would by attempting to support 100% of the customer demand. Currently these channel partners are largely dependent on lead generation and marketing at Maximizer, limiting the value of its partner network in obtaining new customers.

3.2.11 Technical support and software maintenance adds value

Technical support and software updates are provided through the payment of a 20% annual fee (software maintenance) for those customers purchasing a one-time perpetual software license. Customers purchasing a subscription to the company's public cloud software do not pay this extra fee, as the fees paid include software access, technical support and software version updates. This is typical of subscription-based cloud services.

Technical support is provided via telephone, email or via a moderated online forum, operating during business hours. The company does not currently offer 24x7x365 access that would be required for larger multinational enterprises. In general, smaller enterprises serviced by the firm find the extended hours support unnecessary.

3.3 Analysing Maximizer’s strengths and weaknesses

This section will consider the firm’s strengths and weaknesses and how it takes advantage of its strengths or mitigates its weaknesses.

3.3.1 The company’s core strengths

The company’s value chain supports four competitive advantages:

The firm’s software has been in development for 25 years – many years longer than that of Microsoft, Oracle, Salesforce.com or any other current competitor. The company’s original sales force automation (SFA) heritage provides a high level of functionality for customers who are focused on sales team productivity. Where the company can engage an appropriate SFA-focused customer with a demonstration of its software, these sales productivity advantages favour the company. This advantage is sustainable only for as long as the company continues to focus on a customer persona that demands a high degree of sales force automation functionality.

Flexible deployment options address data privacy concerns and can meet a broader set of customer requirements. Few of the competitors in the overall CRM market provide the option to deploy public cloud, private cloud, and on-premise cloud versions of the products. Maximizer, Microsoft, Oracle, Sage and Sugar are the only competitors offering all three options. The company takes advantage of its public cloud capabilities when emphasizing ease and speed of acquisition and lower total cost of ownership. The company takes advantage of private cloud capabilities by emphasizing data privacy concerns, business continuity and disaster recovery, and where a smaller customer does not wish to manage their own hardware platform. The company takes advantage of its on-premise capabilities by emphasizing data privacy and for larger customers whose IT departments have the resources and desire to manage their own hardware infrastructure. The firm also offers an edition that can be installed as a non-cloud Microsoft Windows-based application. Although unique amongst cloud vendors, this capability is considered a legacy of pre-cloud technology. The company expects to discontinue this legacy product as soon as it can ensure a functional migration plan for its customers to the cloud. The company can sustain this competitive advantage only for so long as the business strategies of competitors allow – the technological barrier is almost non-existent to convert their existing public cloud offering to operate on private- and on-premise platforms. It is largely a business decision that avoids the cost of supporting these environments which at large scale can be considerable.

Employee loyalty and experience persuades customers to choose the company's products by reducing the costs and risks associated with customization and delivering greater value for the customers' dollar. The software industry suffers from a reputation for high-cost, high-risk, failure-prone projects (Ellis, 2008). Maximizer takes advantage of this reputation and its employees' long experience by accurately assessing customer requirements against firm resources. Accurate assessments enable the sales team to be more competitive with its customer proposals and projects meet customer expectations more consistently. The company also takes advantage of its R&D team's experience with faster time to market and lower development costs. It should be noted however that these benefits carry a commensurate risk to the company in the event of loss of these highly experienced resources. They are sustainable only for as long as the company delivers above-market competitive compensation.

3.3.2 Competitive activities

The firm's channel partner program offers compelling value that attracts and retains these partners. Higher margins and longer-term annuities for maintenance renewals can attract new partners that reach new customers. The company has not taken full advantage of this capability to recruit a breadth and depth of partners in the geographies it does business in.

The company's support activities, product delivery methodologies and technical support activities are competitive. They represent neither a competitive advantage nor disadvantage.

3.3.3 Competitive disadvantage

The company's competitive disadvantages lay in four key areas in no particular order:

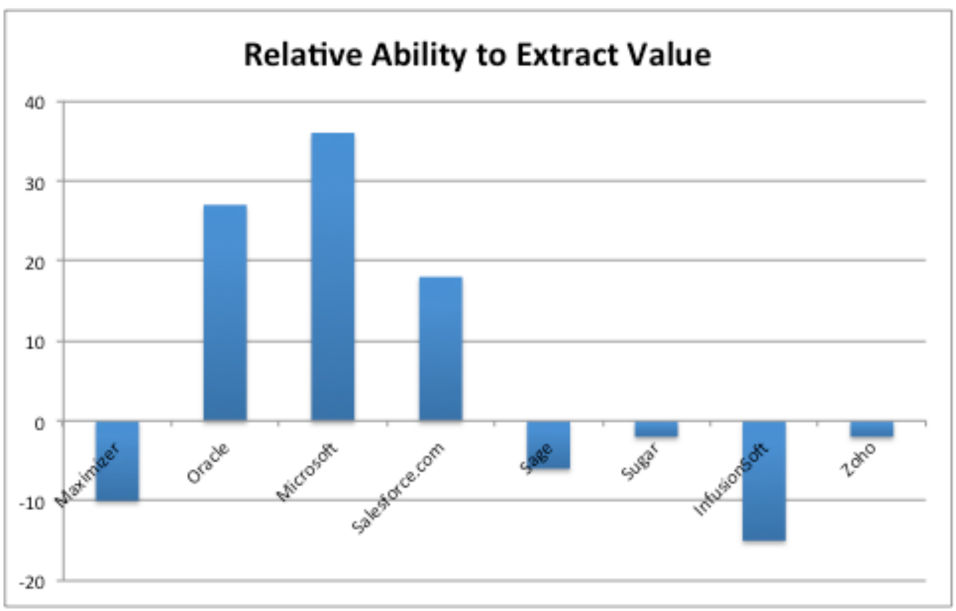
First, the company's product management capabilities have been neglected and manifest themselves in both functional gaps and a failure to bring differentiating innovations to the market. At the time the company began its transition to the cloud, an emphasis was placed on satisfying existing customers. This choice contained an inherent trade-off with the ability to re-architect a new platform that would attract future customers. As suggested by Christensen, et al, the risk of an incumbent like Maximizer is missing a larger market opportunity of less demanding customers while being focused on fewer but more demanding customers. This disadvantage can be overcome and sustained with a move away from a focus on feature depth that satisfies past customers with a focus on feature breadth designed to attract new customers with new capabilities. The company can accommodate existing customers by maintaining the legacy Windows product until it can replace the revenue with new customer acquisition growth.

Second, the firm is less able to extract value from the value chain than some competitors. Firms such as Microsoft and Oracle can offer more of the total solution stack than Maximizer, providing dependent database, cloud, and operating system technologies to the customer as part of each sale. However, the choice to integrate as these firms have done comes with a trade-off in nimbleness for the firm. Maximizer may surrender the value of the "stack" owned by others for the ability to focus on customer needs in both the general CRM space as well as narrower markets within the CRM space. This would support the refocused effort on product breadth as discussed earlier to bring new innovations to market faster than the larger less-nimble "stack" competitors.

Third, the firm's lower profits have provided fewer funds available for reinvestment. Even new entrants like InfusionSoft with its recent investment of $54M from Goldman Sachs are well funded. These well-funded start-ups suggest a significant threat for all incumbents including Maximizer. Without effective funding for marketing activities combined with a stronger product offering that satisfies the majority of new CRM adopters, the firm will be at a significant disadvantage. This disadvantage can be overcome with cost-effective Internet-based marketing campaigns and strategic investments with key industry analysts. A focus on the importance of a strong product strategy will pay off more effectively than a poor product strategy supported by high marketing spend: customers and industry influencers will catch on quickly.

Finally, the firm has failed to leverage its channel partner program value to recruit a large, high quality partner network as its competitors. The firm can address this by leveraging its high-value program offerings and renewing its recruiting efforts in all geographies. This effort is sustainable for as long as the company continues to ensure its partner program offers more benefits than those of its competitors.

Figure 9 shows how activities in the value chain can be compared to those of competitors to understand the firm's relative ability to extract value in the market. Note that competitors both inside and outside the firm's strategic group are included in this assessment. The methodology is based on the author's personal experience with Microsoft, Sage, Salesforce.com and Maximizer, and the author's assessment of competitors' website based information. Attributes assessed come from four sections of the value chain: Logistics, Marketing, R&D, and Professional Services. Each attribute is given a score and totalled for each firm. For the purposes of this assessment, all attributes are considered equal in weight.



Source: Author

Figure 9: Maximizer's relative ability to extract value

The firm's overall ability to extract value from the market is low relative to its competition. The company will remain under growing pressure with a nominal ability to extract rents above market average in a moderately competitive market until it can improve its market position and operational in its marketing, sales channels, and product development capabilities.

4: Current strategy at Maximizer

This section will describe the business scope of the firm, the product-customer segments it operates in, and its strategy for executing its business. It will describe how it competes for its business and how it adds value in its business.

4.1 Single-line horizontal product strategy

The privately held firm is in a single line of business of developing and marketing Customer Relationship Management (CRM) software and services. It depends on its own revenue as well as additional investment by its owner for resourcing its activities. The firm develops and supports the entire CRM product line that it sells. It is neither vertically nor horizontally integrated and depends on partnerships for both vertically interdependent technologies as well as horizontally complementary products.

The firm operates in a wide range of geographies with key regions being North America, the EU, and Asia-Pacific with offices in Canada, the U.K. and Australia.

4.2 Product-oriented positioning in the SMB market

The firm is pursuing a product-oriented strategy serving a broad horizontal range of industries in the small- and mid-size business (SMB) market defined as businesses of 1-499 employees. The firm is preparing to pursue its first vertical market in the Private Wealth Management sector of the Financial Services industry. This market choice was based on its historical strength with this sector’s demanding sales force automation emphasis and a unique independent agent relationship with industry firms similar to that of the real estate industry relationship to its agents. The company has thousands of existing users in this market segment for which it feels it can draw on a unique understanding of customer requirements and provide a high-value specialized product variant. It is expected that the company will pursue other vertical markets in this manner that will help position it for a differentiated focus strategy. For a period of time, the company will operate a mixed strategy while it builds its vertical product offerings.

The firm provides its products to customers for installation on the customer's own computers, as well as a service to which a customer can subscribe and access via the Internet. The firm provides a legacy product for Microsoft's Windows operating system for which it expects to exit from and replace with its public cloud offering with minimal customer loss. The firm provides complementary billable services ("Professional Services") in the form of installation, customization, configuration, and training.

4.3 Lack of distinct competitive position

The firm does not have a clearly articulated strategic position: it does not compete with significant differentiation or with a particular focus, and its cost advantage is based largely on its sunk costs. Thus it suffers from a classic "stuck in the middle" position without a significant competitive advantage (Porter, 1980).

The firm takes its products to market through a direct sales team and through external channel partnerships that resell the company's products, substituting the professional services portion of the sale with the channel partner's own services team. Customers are brought into the sales cycles of the firm and its channel partners from visitors to the company's website, online seminars, regional seminars, trade show events, and web-based marketing response activities.

The firm leverages its expertise gained in 25 years in sales force automation and its parent CRM to win its business. It generates customer value through its mature feature set and attractive price, and through professional services for customers that seek a distinctive capability for their own customer-facing activities. The firm minimizes costs through its expertise that reduces development time. It minimizes development costs beyond the core platform with external partnerships for complementary products.

4.4 Functional in-sourcing strategy

The company performs the bulk of its activities itself. It does not utilize an outsourcing strategy for any part of its operations aside from channel sales partnerships. For sales, the company collaborates with firms that specialize in providing professional services for CRM software to small business.

The firm performs all of its product design, development and support for the Maximizer-branded products itself. It is the predominant marketer of its own products and provides approximately 15% of its sales and service through its channel partners for which it compensates in the form of discounts on the company's products.

The firm delivers its newest generation of cloud product both directly and in partnership with third party hosting providers that provide the hardware platform on which the company's product runs as a service. Products delivered directly are paid for up-front in exchange for a perpetual license, with annual software maintenance securing access to technical support and future software updates. Monthly fees for products delivered via SaaS are charged for as long as the customer continues to use the product.

4.5 Products do not align with a defensible market strategy

The firm is in transition. As it looks for ways to increase customers' willingness to pay, it is looking towards a customer intimate or differentiated-focus strategic position from the current mixed strategy it is in today.

The company's current product offering does not yet fit with the customer intimate position it wishes to take. Focus on meeting the demands of past customers has seen new entrants and existing competitors pass it in functional areas of CRM outside of sales force automation. The company does not have a significant cost advantage with which to compete on cost unless it cuts development and other non-revenue generating services. This would eventually lead to the minimum functionality required to participate in the market rising above the capabilities of the firm, and eventual business failure.

5: Maximizer financial performance analysis

This section will assess the financial performance of the firm. Four measurements of the firm's financial performance will be considered: operational activity, profitability, liquidity, and leverage. Salesforce.com and Sage Group plc. have been chosen as benchmark firms for comparative purposes as they represent competitors from the firm's closest strategic competitive group.

5.1 Revenue in decline and expenses on the rise

The company derived 81% of its FY2012 revenues from the productivity of its intellectual property (software) and its human resources. This is the nature of a software company which produces intangible property in the form of electronically delivered software code and professional services that configure and customize that software code. The balance of revenue is produced from third-party software licensing (e.g., Microsoft SQL database licenses) and hosting fees for cloud editions of the products (e.g., Microsoft Azure hosting services for CRM Live).

The company's expenses are split roughly into thirds between the key parts of the organization: Research & Development, Sales & Marketing, and Administrative. Industry expense ratios vary widely. Microsoft spends 27%[8] of its operating expenses on sales and marketing and 9% of expenses on administrative expenses, and 19% of expenses on research and development, with the remaining 45% related to goodwill and cost of

[8] Microsoft 2012 Annual Report

revenue. Salesforce.com[9] spent 64.5% of its expenses on sales and marketing with only 16.5% of its expenses on research & development and 19% on general and administrative expenses.

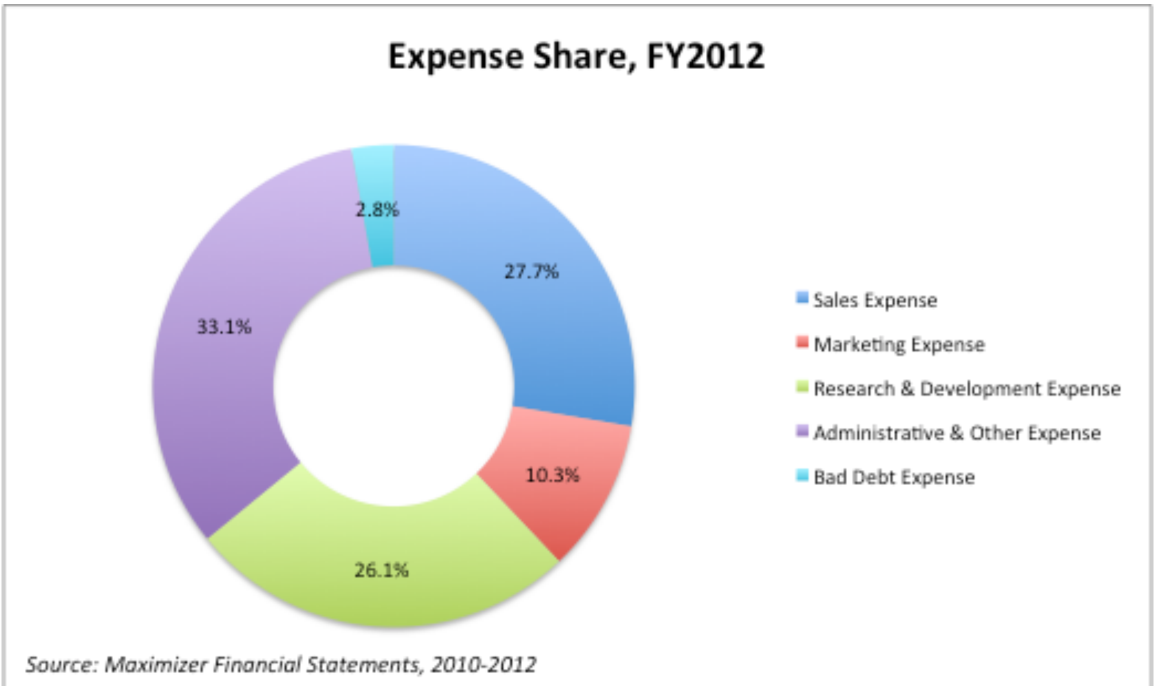


Figure 10: Maximizer operating expense shares, 2012

5.2 Operationally inefficient but improving

The firm's operational activity begins with an analysis of its FY2012 income statement as shown in Appendix A. Sales have declined 4.7% from FY2011 to FY2012. The company's income statement shows the company's revenue broken out into software and services, declining 15.8% and 3.3% respectively for the same period. The marked difference between software and services growth rates reflects the company's moves to

[9] Salesforce.com 2012 Annual Report

bolster declining license revenues with sales of professional services to existing customers.

A software company's health is dependent growth in its license sales, particularly to new customers. The significant decline in software in tandem with a CRM market growth rate of 12% in FY2012, suggests that the company is not able to effectively create or communicate the value of its products to new customers. This suggestion is also supported by the company's 18%/82%[10] split of license revenue between new and existing customers. Comparatively, Salesforce.com grew revenues by 35% in the same three-year period thereby outperforming the market and taking market share from competitors.

Table 5 shows the company's gross margins have been relatively stable averaging 82.7% between FY2010-FY2012. This compares favourably with Salesforce.com at 77.6% and Sage at 93.7%. The stable margins combined with declining revenues appear counter-intuitive: declining revenue suggests a decrease in the customer's willingness to pay, and thus the sales team should see price pressure in a competitive market. This is not happening. When considered in the context of the 18% / 82% revenue split between new and existing customers, the explanation may be that existing customers have a high barrier of exit, are less price-sensitive, and are supporting the margins. In this context, the firm's high margins may experience decline in a more competitive context.

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[10] Source: Author, Maximizer CRM opportunity data, FY2012

Table 5: Profitability ratios

Measurement	FY2010	FY2011	MSI FY2012	Sage FY2012	Salesforce.com FY2012
Gross Margin in %	82.0%	83.7%	82.4%	93.7%	77.6%
EBITDA	($435,262)	($202,449)	$88,334	$366,400,000	($110,710,000)
EBITDA/Sales	-5.1%	-2.6%	1.2%	27.3%	-158.2%
ROS (Return on Sales)	-13.3%	-4.7%	-8.8%	12.9%	-8.9%
ROE (Return on Equity)	-327.1%	-3.1%	-5.4%	22.7%	-243.7%
ROA (Return on Net Assets)	-79.3%	-21.8%	-36.3%	7.0%	-4.9%

Source: Author, Maximizer Financial Statements FY2012, Sage Financial Statements FY2012, and Salesforce.com Financial Statements FY2013

The firm's EBITDA/Sales ratio provides an indication of how efficient the company is at generating earnings over which management has full control. Table 5 shows the firm's EBITDA/Sales ratio for FY2012 is 1.2%, compared with 27.3% for Sage and -158.2% for Salesforce.com. The firm has dramatically improved its performance on this metric from FY2010 by 122.8%.

Another method of looking at the health of the firm is from its Interest Coverage ratio. A FY2012 factor of -0.56 reflects the company's inability to cover its interest obligations from its operations. In the past, the company's shareholder has "topped up" with investments to cover shortfalls, so the risk of default is low. The management team has also improved performance by 96% from a factor of -14.4 in FY2010. Comparatively, Sage's performance was 26.1 and Salesforce.com -3.58 in the same period. In these respects, the company shows a trajectory of improved health and in the meantime is protected by its well-financed shareholder.

Table 6: Leverage ratios

Measurement	FY2010	FY2011	MSI FY2012	Sage FY2012	Salesforce.com FY2012
Debt/Equity Ratio	(0.05)	(0.38)	(0.57)	0.25	0.30
Interest Coverage	(14.38)	(6.44)	(0.56)	26.13	(3.58)

Source: Author, Maximizer Financial Statements FY2012, Sage Financial Statements FY2012, and Salesforce.com Financial Statements FY2013

The company's return on sales (ROS) is a measurement of its operational efficiency or profit per dollar of sales. Although it improved to -8.8% in FY2012 vs. -13.3% in FY2010, it did decline from -4.7% in FY2011, largely due to a one-time restructuring cost of 6.7% of revenues that would otherwise have seen ROS at -2.2%. In FY2012, Sage produced an ROS of 12.9% and Salesforce.com -8.9% respectively. At first glance this might suggest that Maximizer compares favourably with Salesforce.com. However, the high revenue growth rate and cash flows that Salesforce.com enjoys suggests that they are sacrificing profitability for market share growth – a strategic choice rather than an undesirable result.

Return on Equity gives shareholders a relative measure of how much profit a company can produce with the money shareholders have invested. Since it is a balance sheet item, it is also affected by the cumulative performance (or lack of performance) from previous years, where the income statement is a current snapshot of performance. The firm's ROE is -5.4% for FY2012. It is much lower than the 25.05% average ROE (Damordaran, 2013) for the computer software industry. This ROE compares with that of Sage at 22.7% and Salesforce.com at -243.7%, as well as the company's improvement from FY2010 ROE of -327.1%. The negative FY2012 ROE is largely a factor of a one-time restructuring cost in FY2012 and the large negative retained earnings coming from the sale of a subsidiary company, ABC Multiactive (China) in FY2011. ABC Multiactive (China) is a firm that was once a subsidiary but is now run as a separate firm unrelated to Maximizer Software, owned by the same owner.

If we look at the change in current assets in Table 9 and the liquidity ratios in Table 7, we see tremendous growth between FY2010 and FY2012 moving the company from a current ratio of essentially zero to a factor of .15. This declined from FY2011's current ratio of .22 due to the creation of a line of credit for the company at HSBC.

Table 7: Liquidity ratios

Measurement	FY2010	FY2011	MSI FY2012	Sage FY2012	Salesforce.com FY2012
Debt/Equity Ratio	(0.05)	(0.38)	(0.57)	0.25	0.30
Interest Coverage	(14.38)	(6.44)	(0.56)	26.13	(3.58)

Source: Author, Maximizer Financial Statements FY2012, Sage Financial Statements FY2012, and Salesforce.com Financial Statements FY2013

Table 8 shows a comparative analysis of the company's key operational activity metrics. From this we can see that the company has a stable and roughly comparable management of its accounts payables, and is collecting its accounts receivables efficiently. This is a double-edged sword: the low accounts receivable collection period is a product of a high percentage of credit card purchases from the company's customers – a product of low average order sizes for which customers would not seek extended payment terms. As the company increases its average order size, it will increase credit and this value will necessarily increase.

Table 8: Operational activity ratios

Activity Dashboard

Measurement	FY2010	FY2011	MSI FY2012	Sage FY2012	Salesforce.com FY2012
Revenue	8,461,914	7,893,207	7,515,295	1,340,200,000	3,050,195,000
Accounts Payable Turnover Ratio	n/a	0.8	0.8	0.3	1.2
Accounts Receivable Turnover Ratio	n/a	17.6	12.3	4.6	3.9
Days Sales Outstanding	n/a	20.5	29.3	79.0	91.8
Days Payables Outstanding	n/a	461.3	423.6	1,110.7	292.3
Average Accounts Payable	n/a	1,671,287	1,566,265	260,100,000	554,983,000
Average Accounts Receivable	n/a	449,644	611,432	294,100,000	778,189,500

Source: Author, Maximizer Financial Statements FY2012, Sage Financial Statements FY2012, and Salesforce.com Financial Statements FY2013

Table 9: Maximizer selected financial items

Selected Financial Items

	2010	2011	2012	% Change
Income Statement				
Total Revenue	$8,461,914	$7,893,207	$7,515,295	-11.2%
Gross Margin	$6,942,241	$6,604,374	$6,191,253	-10.8%
Research and development expenses	$2,361,603	$2,035,736	$1,593,539	-32.5%
Sales/Marketing and Administrative expenses	$5,334,229	$4,720,346	$4,337,191	-18.7%
Operating Income	($577,544)	($322,650)	($39,762)	93.1%
Net Income	($1,128,402)	($369,077)	($664,039)	41.2%
Balance Sheet				
Total Current Assets	$7,192	$722,989	$831,694	11464.2%
Total Assets	$1,424,142	$1,694,113	$1,829,079	28.4%
Total Current Liabilities	$4,170,588	$3,325,943	$5,608,641	34.5%
Total Liabilities	($2,746,446)	($3,115,522)	($3,779,561)	-37.6%
Total Equity	($1,322,304)	($1,421,409)	($1,950,482)	-47.5%
Cash Flow				
Net Income/Starting Line	($480,419)	($148,522)	$89,956	118.7%
Cash from Operating	n/a	($57,598)	($613,690)	-965.5%
Cash from Investing	n/a	($35,826)	$26,261	173.3%
Cash from Financing	n/a	$639,048	$2,282,698	257.2%
Net Change in Cash	n/a	($148,522)	$89,956	160.6%

source: Author, Maximizer Financials FY2010-FY2012

5.3 Economic value destruction

Net income does not take into account the shareholder's opportunity cost. Economic value added describes the amount of value that the company creates taking into account this opportunity cost.

In Maximizer's case, the company owner's core business holdings are in an entirely different market from that of Maximizer: residential property development. The sole shareholder is the company's primary source of (or security for) capital investment. The comparison of economic value added provides an objective method of comparing investment opportunities between his core business and his Maximizer business.

In order to calculate the opportunity cost of capital, we need to know the volatility ("beta" value) of the price of firms in the CRM market and the return expected by the company's investors. A sampling of six firms in the business, whose stock price volatility has been benchmarked against the S&P 500, shows an average beta of 1.055. A sampling of four public residential property development companies in North America shows an average return on equity of 12.88%.

Using 12.88% as a benchmark for expected returns, a beta of 1.055, and a risk-free rate of 1.50% based on a 10-year average yield for Canadian government bonds[11], a risk-weighted expected return value can be calculated using the capital asset pricing model method (CAP-M). This means that based on the risk of the firm and the comparative risk of the industry the firm operates in, a shareholder should receive a 13.46% return for their investment.

The CAP-M value provides the expected return for an equity investor, but the economic value added must factor in the expected return for debt holders using a weighted average cost of capital (WACC). Using the CAP-M equity return of 13.46% together with the interest rate of the company's debt at 0.94% weighted against the relative size of both equity and debt, we get a WACC of 38.58% that represents the expected risk-factored weighted return rate for the investor.

In order to calculate how much economic value has been added or lost for the shareholders, the total invested capital is multiplied by the WACC. This amount is then subtracted from the firm's net operating profit after taxes (NOPAT) to find that the company has lost $1,098,785 in opportunity cost for the shareholder.

It should be noted that opportunity costs calculated using WACC is not always a reliable figure where the equity is negative. In these cases, the negative denominator creates a very large 'required return' that is likely higher than an investor's real

[11] Source: Bank of Canada, April 4, 2013, Government of Canada Marketable Bonds, 10 year average yield

expectations. In this case, the firm's shareholder will have knowingly participated in the restructuring of ABC Multiactive that resulted in a significant charge against the balance sheet to cause this effect. In doing so, the shareholder is aware that this is anomalistic and therefore does not truly represent the risks associated with the investment.

Table 10 shows the calculations used in this section.

Table 10: Maximizer economic value added FY2012

Economic Value Added Model

		FY2010	FY2011	FY2012
Beta	CRM Market Vendors	Beta	Beta	Beta
	Salesforce.com	1.46	1.46	1.46
	NetSuite	1.34	1.34	1.34
	Pegasystems	0.32	0.32	0.32
	Callidus Software	1.51	1.51	1.51
	Covergys	0.86	0.86	0.86
	SAGE	0.84	0.84	0.84
	Beta (Average for CRM Market Vendors)[1]	1.055	1.055	1.055
CAP-M	Expected Market Return[2]	12.88%	12.88%	12.88%
	Risk Free Rate[3]	2.25%	2.25%	2.25%
	CAP-M (Cost of Equity)	13.46%	13.46%	13.46%
WACC	Ke	13.5%	13.5%	13.5%
	Kd	0.08%	0.63%	0.94%
	D	0	1,610,227	2,522,233
	E	(2,746,446)	(3,115,522)	(3,779,561)
	WACC	13.46%	27.18%	38.58%
EVA	Net Assets (from balance sheet)	1,424,142	1,694,113	1,829,079
	NIBCL (Non-interest bearing current liabilities)	4,170,589	3,199,409	3,086,409
	Interest Bearing Debt (IBD, from balance sheet)	0	126,534	2,522,233
	Equity (from balance sheet)	(2,746,446)	(3,115,522)	(3,779,561)
	Invested Capital (NA-NIBCL method)	2,746,447	1,505,296	1,257,330
	Invested Capital (IBD+Equity method)	2,746,446	2,988,988	1,257,328
	NOPAT (Net Operating Profit After Tax)	(1,054,450)	(318,924)	(593,399)
	Economic Value Added	(1,424,104)	(728,050)	(1,078,495)
ROIC	Return on Invested Capital	-38.4%	-21.2%	-47.2%

[1] Source: NASDAQ, NYSE, April 4, 2013
[2] Source: Hoovers Company Reports, April 4, 2013
[3] Source: Bank of Canada, Canada government marketable bond 10-yr average yield

5.4 Financial outlook – struggling to grow

Since its reorganization in FY2012 and a commensurate reduction in operating expenses from 82.9% to 72.6%, along with a re-alignment of the sales organization, the company is forecasting FY2013 revenue growth of 11% with an EBITDA of 7.8%. This growth is expected to come from improvements in sales efficiencies identified within the sales organization, as well as a continued focus on professional services sold to existing and new customers. This growth assumes a 34% increase in sales expenses, a 16% increase in marketing expenses, a 28% reduction in research and development expenses, and assumes a reduction of 20% in administrative expenses. With these assumptions, the company is forecasting $582,227 in EBITDA in its budget for FY2013. The risk to an operationally efficient strategy however is that without emphasis on raising the customer willingness to pay, profitability will be unsustainable as competitors drive down pricing through reduced costs or increased value of their own.

The company is in the process of isolating its cumulative deficit and protect its intellectual property assets by creating a second company, Maximizer Services Inc. This is intended to move the bulk of its operations to the new company so that it can get better visibility into operational efficiencies moving forward. Maximizer Software will still hold the accumulated deficit, which will be reduced through royalty fees from Maximizer Services and the UK and AUS operations. The deficit will also be paid down from the redemption of scientific research and experimental tax credits available in Canada.

In addition, the company will look at a number of strategic alternatives with which it can improve on this growth opportunity.

6: What is the problem and what should Maximizer do?

This section will define the firm's core problems, identify its position in the context of the industry attractiveness, identify the strategic implications of its position and suggest a possible set of alternatives.

6.1 The core problem

The core problem for the firm is its historical revenue decline through to FY2012 and inability to attract new customers. At the current rate of decline, a pro-forma income statement shown in Appendix C predicts revenues will decline by an average of $375,000 annually to $5.6M in 2017 requiring a commensurate reduction in operating expenses in the form of layoffs. Employee reductions will provide fewer resources to support product development, sales and marketing, and support activities, eventually falling beneath the minimum resources required to sustain the company. The firm's June 2012 reorganization and reduction in expenses was designed to scale back to the minimum required to sustain a growing operation. This will limit the company's ability to make additional reductions in operating expenses.

The company's balance sheet is weighted down by accumulated debt that will need to be paid down from operating income. Operating income will need to be improved through a combination of increased revenues and decreased operating expenses that will not be available from the status quo. This growth will require significant changes to the company's strategic position to find new ways to appeal to the market and attract new customers.

The company's current strategy is not well defined nor consistently executed. On one hand it has recognized that it is largely undifferentiated in its market and has no specific market focus. To this end, it has begun developing an industry-specific product for private wealth management markets and intends to develop for additional industry segments. At the same time, the business is organized around serving existing customers at the expense of new: 65% of the sales team is focused on business with existing customers. Just 20% of the research & development budget is focused on new features that would attract new customers. This investment is reflected in FY2012's performance: 82% of company revenues coming from existing customers in FY2012.

The company's lack of differentiation combined with its more price-sensitive SMB market limits customers' willingness to pay. The company's competitive strategic group services the lower end of the market, which is often the first entry point for new market participants. The company will be forced to react to a stream of new entrants and continue to struggle with new customer acquisition unless it can move out of its strategic group with a differentiated position and market offering.

Functional differentiation in a horizontal market space is not defensible in the long term due to the large number of competitors and their ability to imitate quickly at a low cost. Industry-specific (vertical) positioning will drive a higher customer willingness to pay through both functional differentiation and industry-specific knowledge obtained by the firm. This may enable the company to move from its current competitive strategic group into smaller, more defensible niches. The company's strength in the sales force automation portion of the CRM market may also suggest that the company look to vertical industry segments where customers' functional demands for SFA are higher than average.

The company may wish to bridge functional deficits by developing partnerships and integrations with other vendors. The entry into the CRM market by existing ERP vendors will encourage the company to consider partnerships with ERP vendors that have not yet entered the CRM space. The company will also want to explore partnerships with complimentary CRM technology vendors to expand the firm's horizontal functional capabilities. In this manner, the company can take advantage of the customer acquisition growth while avoiding sunk costs and commensurate risks of market failures from unproven new technologies.

The company has existing brand strength from 25 years in the CRM SMB market that can be leveraged. This awareness assists with SEO and awareness that the company could use to re-launch with new initiatives. It would not be difficult to re-start lapsed relationships with the analyst community, channel partners and other market influencers based on a new company strategy. The increased costs here would be moderate and manageable.

An industry vertical market strategy will require additional development and marketing resources. The company may want to consider outsourcing options to improve the scalability and capabilities of its development team. This would have a significant increase in operating expenses for the company and may require additional investment. Marketing activities will need to be targeted at industry-specific markets, raising the costs of marketing. As an alternative to incurring these costs itself, the company may wish to consider a strategy of developing vertical market solutions through its indirect partner channel, avoiding costs by trading off part of the value chain to partners but gaining license growth.

6.2 The firm's position in the context of the industry attractiveness

The company's relative strength in the context of the CRM market's attractiveness is illustrated in Figure 11. The methodology used has been adapted from the industry attractiveness-business strength matrix originally developed by McKinsey & Co. The McKinsey matrix is a quantitative assessment of the attractiveness of the market to incumbents and entrants at the firm level rather than the industry level considered by Porter's Five Forces model.

The firm's relative business strength is evaluated on a scale of one to five for the attributes in Table 11. The industry's attractiveness is similarly evaluated in Table 12. When plotted on the matrix in Figure 11, we can see both the relative strength of the firm versus its competitors.

Table 11: Business strength & competitive position assessment

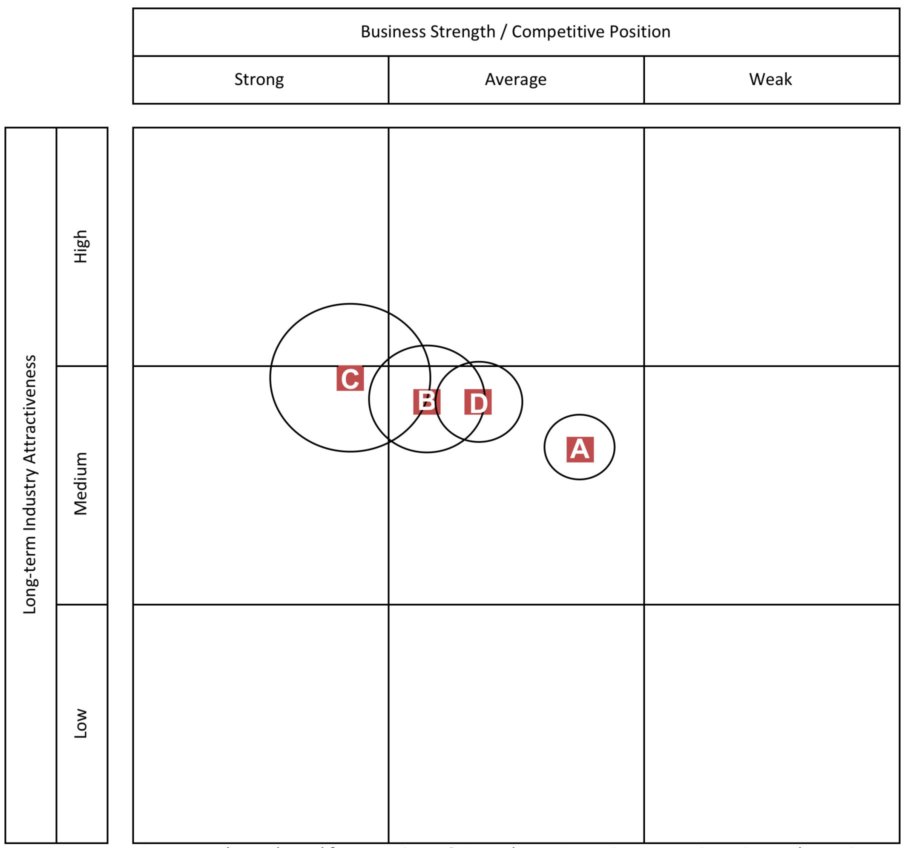
		Status Quo		Vertical Market		Vertical + Investment		Horizontal Cloud	
Competitive Factor	**Weight**	**Maximizer Score**	**Maximizer Weighted**	**Maximizer Score**	**Maximizer Weighted**	**Maximizer Score**	**Maximizer Weighted**	**Maximizer Score**	**Maximizer Weighted**
Relative market share	0.2	2	0.40	3	0.60	4	0.80	2	0.40
Success in increasing market share	0.1	1	0.10	3	0.30	4	0.40	2	0.20
Success in increasing profitability	0.1	1	0.10	3	0.30	4	0.40	3	0.30
Ability to match rivals' cost and quality	0.1	2	0.20	3	0.30	4	0.40	3	0.30
Manufacturing capability	0.15	3	0.45	3	0.45	3	0.45	3	0.45
Reputation/image	0.1	2	0.20	3	0.30	4	0.40	3	0.30
Technological skills	0.05	4	0.20	3	0.15	4	0.20	3	0.15
Marketing/distribution	0.1	3	0.30	3	0.30	3	0.30	3	0.30
Financial strength	0.1	2	0.20	4	0.40	3	0.30	4	0.40
Totals	**1**		**2.15**		**3.10**		**3.65**		**2.80**

Source: Adapted from McKinsey & Co.

Table 12: Industry attractiveness assessment

	Status Quo			Vertical Markets			Horizontal Cloud		
Industry Attractiveness Factor	**Weight**	**Score (max 5)**	**Value**	**Weig ht**	**Score (max 5)**	**Value**	**Weight**	**Score (max 5)**	**Value**
Market size	0.15	5	0.75	0.15	3	0.45	0.15	3	0.45
Projected rate of market growth	0.2	3	0.6	0.2	4	0.8	0.2	4	0.8
Historical and projected pre-tax ROA	0.1	2	0.2	0.1	3	0.3	0.1	4	0.4
Intensity of competition	0.2	2	0.4	0.2	4	0.8	0.2	4	0.8
Emerging opportunities and threats	0.15	3	0.45	0.15	2	0.3	0.15	4	0.6
Seasonality and cyclical influences	0.05	3	0.15	0.05	3	0.15	0.05	3	0.15
Technological and capital requirements	0.05	3	0.15	0.05	4	0.2	0.05	2	0.1
Environmental impact	0.1	1	0.1	0.1	1	0.1	0.1	1	0.1
Social, political and regulatory factors (must be acceptable)	0	0	0	0	0	0	0	0	0
Totals	**1.00**		**2.80**	**1.00**		**3.10**	**1.00**		**3.40**

Source: Author, adapted from McKinsey & Co.



Source: Author, adapted from McKinsey & Co. Industry Attractiveness-Business Strength Matrix

Legend
A - Status quo
B - Vertical market expansion
C - Vertical market expansion with additional investment
D - Horizontal cloud only

Figure 11: Industry attractiveness and business strength matrix

6.3 The implications of the firm's position in the market

The BCG matrix in Figure 12 illustrates the strategic path implication of the firm's position. Should the firm use a low-growth high-share business as a source of funds for new businesses? Should the firm develop or sell off a high-growth, low-share business? Should the firm hold or divest a low-growth low-share business? Is the firm lucky enough to be a high-growth participant in a high-growth market? In Maximizer's case, it is a low-growth company operating in a high-growth market. The BCG matrix implications for this position present the question: build or divest?

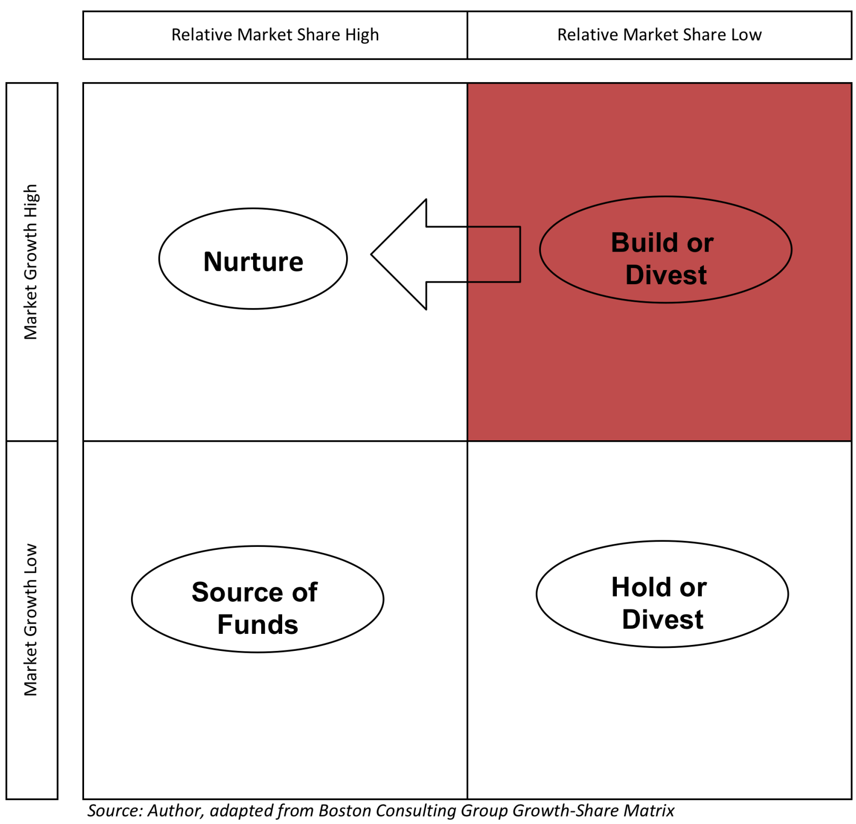


Figure 12: BCG strategic growth/share matrix

If the firm were to divest now, the ability for the firm to obtain an attractive price would be limited. Table 13 shows the negative cash flows for the company based on the firm's FY2012 income statement and projections with no changes over the next five years. A negative ROS (-8.8%), a negative ROA (-36.3%), and negative ROE (-5.4%) combine with a decline from FY2011 to FY2012 on these key valuation metrics. Further, there are few fixed assets on the balance sheet; along with shareholder debt of $3.7M this suggests that a buyer would be inheriting an inefficient money-losing property whose assets cannot cover its debts. The company can argue that it took effective steps mid-FY2012 to reverse the losses and that the problem of profitability has been solved, but any price would certainly be at a low-end of a reasonable valuation.

The company has several options open to it that offer opportunities for growth that would certainly be better explored in order to provide the shareholder with an improved bargaining position.

Table 13: Maintain status quo – DCF analysis

Status Quo DCF		1	2	3	4	5
Period		FY2013	FY2014	FY2015	FY2016	FY2017
Cash Flows		(228,887)	(236,419)	(244,327)	(252,631)	(261,350)
	Sensitivity Analysis					
Discount Rate	12.00%	6.00%	3.00%			
5-Year Revenue	50,115,211					
PV	(875,590)	(1,026,888)	(1,118,563)			

6.4 Recommended path

Four options emerge from the analyses:

1) Maintain the status quo. The company would compete only in the existing horizontal strategic group it already occupies.

2) Improve operational efficiencies and use income to fund development of industry vertical solutions. The firm gradually gains a higher willingness to pay in these new markets while remaining competitive in existing horizontal markets. The company would occupy two strategic groups simultaneously: horizontal and vertical.

3) Fund a variant of option #2 via new investment and operational efficiencies. Develop industry vertical solutions, and acquire and/or develop new complementary technologies to increase willingness to pay in both the horizontal and vertical markets. Company raises willingness to pay in both vertical and horizontal markets.

4) Radically restructure the business around a cloud-only CRM solution, quickly shedding the costs of the legacy Windows code-base. Moving towards a lower cost customer acquisition and support infrastructure, redirecting positive cash flows to invest in R&D and marketing.

The first option ("Status quo") to maintain the status quo would involve continued pursuit of the horizontal CRM market in an operationally efficient or cost leadership competitive position. This position as posited by Porter is undifferentiated and indefensible and hardly qualifies as a strategy. By remaining small and reducing operating expenses, the company could make changes to its go to market strategy to develop a low cost operational model, competing on price/performance. Although the investment required would be nominal, the competitive environment would be more intense.

The second option ("Industry-specific vertical market expansion") will move towards a differentiated strategy with a customer intimate focus in industry vertical markets. This will see the firm occupy two strategic groups: one being a series of higher willingness-to-pay vertical markets with the other being the existing price competitive horizontal market position it currently occupies. In time the higher profits from the vertical market segments could allow the firm to re-invest in the core product to raise its competitiveness in the horizontal market position. The investment would be nominal and funded through existing resources, but the time to market would be longer – possibly longer than the window of opportunity in some vertical markets.

The third option ("Industry-specific vertical market expansion with new investment") will see the firm move towards a differentiated vertical market strategy with the additional shareholder investment. New external investment would accelerate the firm's profitability in both market positions. This approach would accelerate benefits and minimize the risk of short windows of opportunity.

The fourth option presented ("Horizontal cloud-only CRM") will see the firm choose a purely operationally efficient model by creating an entirely public-cloud web-based CRM business. It will reduce operating expenses by eliminating direct professional services and commission salespeople and move to a customer-service centric business. In this way it can operate a very low-cost, high-profit business model leveraging its 25-year investment in the existing code base.

6.5 Dashboards

Most financial metrics are lagging indicators – that is, they are the results of activities already completed. The firm must also monitor leading indicators that are predictive of its lagging metrics and strategic objectives. In addition to the common financial ratios outlined in Section 5.2, the firm should measure its progress with predictive metrics such as:

1) Leads and opportunities for new customers including created, won and lost ratios that can be managed through marketing and sales activities. These metrics will be predictive of revenue. These should also be monitored for vertical market vs. horizontal market and public cloud/on-premise sales that would monitor trends affecting success of the firm's vertical market strategy and the readiness to end-of-life the client-server product. The latter action will enable the company to devote more development resources to the products that the firm depends on for revenue growth;
2) Customer service response times including cases created, closed, and case aging against service levels that will be predictive of customer satisfaction and retention;

3) Development costs of vertical market initiatives separate from the core product. This will help the firm assess the marginal cost of servicing these new markets;

4) Customer churn rates both gross and net. Gross customer churn would be equivalent to [loss/total customers] and net customer churn would be equivalent to [[win-loss]/total customers].

In this manner, the company will be able to monitor the activities that will drive its revenue growth and more effectively manage operating expenses going forward.

7: Strategic alternatives available to the firm

This section will evaluate prospective strategic positional strategies, the status quo, and three strategic alternatives for the business described in the previous chapter.

7.1 Strategic position – the first step

Corporate strategy is the strategy of the firm in the context of the marketplace and other firms. It determines what business to be in, what markets to operate in, and what strategic positions are to be taken. An effective strategic position can move the company into more profitable and defensible strategic groups than the firm currently occupies. Without a discrete strategic position, the firm will create confusion in the marketplace and diluted effects of resources inside the firm.

There are three fundamental strategic positions a firm can take (Porter, 1980): cost leadership, differentiation, and focus as previously described in Figure 8. The firm does not have the resources to compete for a horizontal market differentiated (technology leadership) position. This kind of position requires significant R&D investment beyond the reach of the firm and is occupied primarily by ERP-CRM firms such as Oracle, Microsoft, and SAP. This analysis presents options for two cost leadership positions and two differentiated focus positions of varying degrees of defensibility.

7.1.1 Market scope – horizontal and vertical markets

Since the company is a single line of business operating in a single market, there is little to gain from suggesting it exit this business and enter another. There are no latent technologies to leverage into a new business outside of the CRM market. The market itself experiences healthy growth and a large prospective customer base. Figure 13 illustrates the benefit of entering an industry vertical market in comparison to the firm's current competitive group and major competitors, assuming the firm expands into a narrowly defined (and therefore less competitive) industry vertical. It can remain competing in a horizontal space (with commensurately higher intensity) but can simultaneously experience lower intensity competition and higher willingness to pay in the vertical spaces.

The firm will experience higher costs of sales and operational expenses managing vertical markets, as it needs discrete sales and marketing resources that clearly understand an industry's requirements. However, the firm's existing platform is highly customizable and requires an estimated 400-500 person hours of research and development[12] for each vertical market solution that sits atop the core CRM product. Even when combining the costs of additional personnel, the overall costs and time-to-market for each industry are anticipated to be small.

For the options that suggest consistent profitability, the firm may also find it able to drive significant improvements back into the core CRM platform. This will improve the attraction for horizontal market customers. The company also enjoys significant and predictable revenue in the horizontal market that would be key to funding vertical market entry. In this respect, there is little incentive for the company to choose a vertical market strategy at the expense of exiting the horizontal market entirely. The horizontal market could be thought of as "customers in specific industries for which the firm has not yet

[12] Based on the firm's recent development of a template for the private wealth management market

produced an off-the-shelf vertical solution". This approach remains customer intimate and focused in the context of the firm providing customization services in place of the off-the-shelf solutions – still providing a tailor-fit solution that is the hallmark of a differentiated, focused strategy.

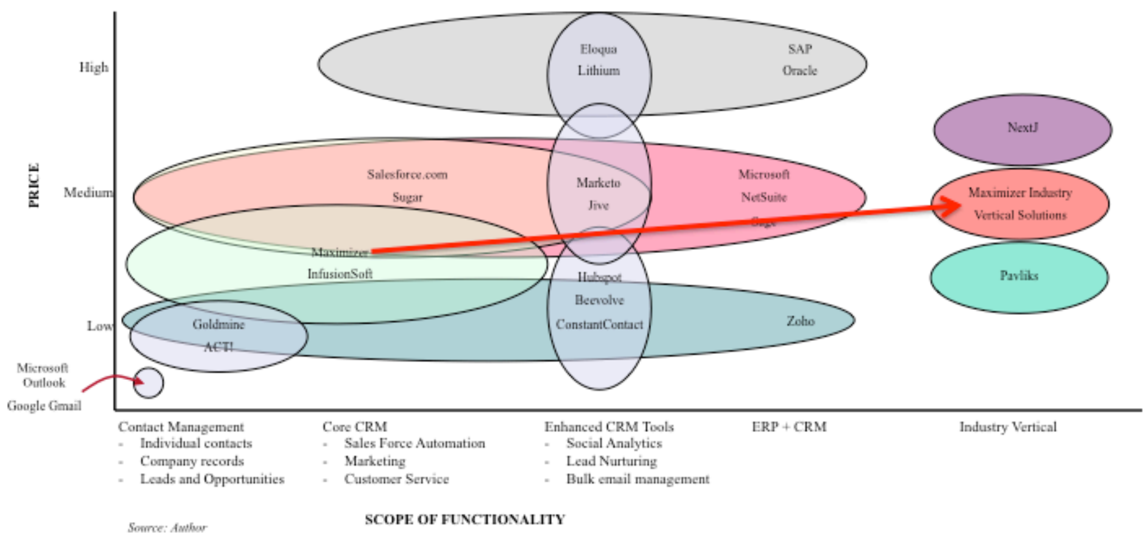


Figure 13: Illustration of expansion into industry-specific strategic groups

Firms can exist in two strategic groups simultaneously. The existing horizontal CRM business can be supported by entry into industry specific vertical markets with a differentiated product offering.

7.1.2 SMB market demographic

The firm currently does business in the small- and medium-sized business (SMB) market. Implementing its strategic position within a specific market demographic can significantly narrow the firm's strategic grouping. The market demographic for a CRM software company is influenced by its product's 'scalability' and its 'functionality'. Scalability is its ability to operate as easily with small deployments as well as it operates in large-scale deployments. For the firm, its cloud-based technology is designed to scale and this is not a barrier. However, firms are also constrained by the demands of their customers. Large enterprise customers have high functional demands that distract smaller vendors with demands on the firm's limited resources that are not necessarily valued by less demanding customers. In this manner, firms can 'overshoot' the mainstream market and leave the door open to competitors and new entrants (Christensen, Raynor, & Verlinden, 2001). Maximizer has limited resources and as such is better off leveraging its success in the SMB space with the strategies outlined in this section.

7.2 Business strategies – status quo and three viable options

Competitive strategies are the strategies of the firm in the context of the activities it pursues. This section will review the company's options in the context of these activities.

7.2.1 Maintaining the status quo

This option is intended as a benchmark and considers the consequences of maintaining the same market position that the firm operated in during FY2012. Its cost-differentiated position lacks the ability to increase customer willingness to pay. This will result in downward pressure on its costs as the buyer willingness to pay decreases from increased seller competition. The intensity of competition will increase over time in the current strategic group position, remaining at what is a common entry point for new entrants. The lack of differentiation can be best illustrated by the firm's 10.8% decline in software sales between FY2010 and FY2012 (Appendix A).

The firm cannot operate with the same operating expense ratios as it did in FY2012. Therefore it must (and has for FY2013) reduce its operating expense ratios as a percentage of revenue to maximize net income.

The firm would re-invest any available net income back into the development and marketing of its horizontal product. Appendix D shows the functional gaps in the current product as it relates to the firm's key strategic group. The firm would initially close gaps on functionality shared by the majority of its competitors. It would then focus on areas of opportunity shown in the functional competitive matrix in Appendix D (considered mainstream capabilities). This would be followed by an assessment of earlier-stage functionalities described by Gartner in the hype cycle diagram shown in Figure 2 and from other sources of market information available to the firm.

Although the market would still be narrowed somewhat by its SMB positioning, the market space is still vast with over 5.9M small businesses in the United States alone. This presents a significant challenge for effective marketing spending. There is virtually no affordable opportunity in a horizontal market for the company to develop significant brand awareness. The massive market would rapidly absorb any resources the company has access to. Increased competition would present difficulty even for Internet-based search engine optimization to remain effective; it is only the company's longevity in the market that has given it an advantage over new entrants here. This advantage will be diluted by the number of and marketing spending by competitors.

Lack of resources will hamper the firm's ability to re-invest in development and marketing to create differentiation, and as such will limit revenue growth estimated at between 0% - 5%[13].

As the market grows at more than double the firm's projected growth rate, the company will find it increasingly difficult to compete with better-resourced competitors. Although the firm has a near-zero marginal cost from its intangible software, it is highly dependent on payroll that represents significant fixed costs. Further margin erosion will occur until competitors sell below the firm's costs and force it to exit.

7.2.2 Industry-specific vertical market expansion

This option considers expansion beyond the status quo strategic group by expanding its product offering into a number of strategic vertical markets. The firm will raise the customer's willingness to pay by offering a product designed to meet the unique needs of a specific industry segment or customer (Treacy & Wiersema, 2000). Narrowing the market definition creates an opportunity to occupy a smaller and more defensible market than the horizontal SMB group it currently occupies.

The firm has proven its ability to develop customized user interface elements that reflect a specific industry's requirements. For example, a typical CRM sales interface will include contact management with data fields that include terms like "company" and deal with elements like "opportunities". In private wealth management industry, "family" replaces the concept of "company" and the "opportunity" element is not used at all. Their work revolves around elements more closely related to customer service "cases". In addition, there are unique regulatory requirements such as the "know your client rule"

[13] Author estimate

that involves multiple steps and individuals within the firm and clients that have specialized automated workflows. This customization has been captured in a "template" that can be replicated for virtually any new private wealth management customer without the commensurate customization costs that would otherwise take 5-6 weeks at a cost of up to $30,000 - $40,000 in professional services. It is expected that the bulk of costs are captured in the template and that any additional customization work would be a much smaller and affordable cost particularly for the SMB market client.

The company would offer this template to the market as a value-added product in order to increase the customer's willingness to pay.

The firm's experience in 25 years working with numerous industries presents a competitive advantage in understanding the needs of numerous industries and minimizing the cost of developing the templates for any number of industries it chooses. It has a diverse customer base (over 40 different industries in FY2012) that it can draw on for assistance in developing these industry templates.

By narrowing the market definition, the firm can limit the number of competitors and deter entrants. The smaller the market, the smaller the opportunity however, and eventually the fixed costs of the firm in turn limit the low-bound size of the market it can cost-effectively pursue. The firm can extend its lower-bound entry into smaller markets through encouraging channel partners to develop for these segments. The firm will surrender part of the value chain in this respect, but it will benefit from pulling through license sales of its core platform and brand awareness across more markets.

Expansion into vertical markets expects growth to rise slightly above the general CRM market at 10% - 18%[13].

7.2.3 Industry-specific vertical market expansion with new investment

This option expands into industry-specific markets the benefit of additional investment. This new investment will enable the firm to speed its time-to-market and enter more discrete strategic groups that will raise willingness to pay and defensive market capabilities. The business will obtain a greater share of its revenue from the industry vertical segment that will be less price-sensitive, protecting the firm from margin erosion while growing its markets with new customers.

The revenue growth expectations allow for an investment of $2,000,000 - $2,700,000 based on a discounted cash flow analysis positive for returns at 12% and 3% over five years.

The company will use the investment to accelerate development of industry vertical templates, hiring a dedicated team of developers to move into multiple industries simultaneously. The investment will also be used to engage in multiple marketing activities to launch in multiple markets simultaneously. This will create a steeper revenue trajectory than would be possible than without additional investment.

The dedicated team will be able to pursue markets that have more complex requirements, or those that may require core functionality upgrades such as manufacturing markets that require quoting functionality that is not present in the product today.

This plan expects an additive and accelerating effect on revenue growth estimated at between 12%-24% over five years.

7.2.4 Horizontal cloud-only CRM

This option diverges radically from the company's current position and considers radically reducing costs to operate a lightweight online-only operation that focuses the business on the least demanding customers in the SMB space.

Customization and integration services performed directly today would be left to indirect channel partners to perform. This strategy would see the firm shift rapidly to the cloud and seek to automate as much of its customer acquisition and support process in order to lower operational expenses from payroll, and enable scalable customer acquisition for the lowest possible costs.

This approach would differ significantly from the status quo by rapidly cutting operational costs and redirect those investments into research and development and marketing in order to compete with new and existing entrants. This option would not move the firm out of its existing strategic group but would make it significantly more competitive in that market than it is today. The danger with this approach is that operational effectiveness (cost leadership) is not a sustainably defensible position (Porter, 1996). Eventually the firm will be competing with others with a materially undifferentiated offering that will place it back in the same position it is currently in.

Conceivably the company could re-direct a significant portion of its costs back to research & development and marketing in order to drive customer acquisition. However, the horizontal market focus will limit the company's growth to market levels expected to be approximately 12% per year over five years, with significant sensitivity to changes in competitive intensity.

8: Solution Analysis

This section will consider the solutions offered in Section 7 in the context of the firm's goals. The method of analysis will be a multi-goal analysis.

The selection of the method of analysis is based on the need of the firm to consider multiple monetized and non-monetized objectives (Vining & Meredith, 2000). Although profitability is a natural and obvious objective and arguably, "(the)…one and only one social responsibility…" (Friedman, 1970), the choice of the strategy affects more than simply the profitability of the firm. It can affect and be affected by outputs that feed back as inputs to the firm and therefore must be considered: employee morale, brand value, geographic expansion and market diversification. This multi-goal analysis will use a weighted scoring system to better determine the value of profitability (monetized) in the context of other (non-monetized) goals.

8.1 Valuation matrix criteria

The company's central goal is profitability and as such is weighted the highest of any individual criterion at 20%. Profitability can be described as the result of acting in the interest of the shareholder. All other criteria including revenue serve that interest indirectly and can be considered as 'levers' that management believes lead to increased profitability.

Revenue is selected as a success criterion as it is a test of the company's market acceptance and customers' willingness to pay for their products.

Market diversification represents the firm's ability to expand outside of its highly competitive strategic group. In this respect, the company hopes to reduce its dependence on an undifferentiated horizontal strategic group and expand into differentiated industry vertical groups.

Geographic diversity is a success criterion as it protects the company from the threat of economic instability unique to any individual geography. In this case, the company's business is significantly weighted towards North American (77% of revenue) and in particular Canadian (38% of revenue) business. The company has made investments internationally through its presence in the UK and Australia. Business in Asia remains limited but an opportunity of interest. In all of these respects, the international diversity of the company's revenues merit consideration.

Market attractiveness generally aligns with the market forces analysis described in section 2.6 and in the market forces diagram in Figure 6. This criterion evaluates the degree to which the strategy interacts with market forces and how the market will receive the strategy.

The feasibility criterion assesses the degree to which the strategy can be effectively implemented. Are the resources available? How will employees respond? Is the firm ready now or are there significant preparations required?

Brand value criterion gauges the effect of the strategy on the brand value, as the market perceives it. Will the market see the company as providing more value or not?

The strategic valuation analysis follows in Table 14.

Table 14: Valuation of strategic options for Maximizer

Strategy Valuation Matrix		**Strategies**			
		Status Quo	Vertical Market Entry	Vertical Entry + Investment	Online Cloud Only
Criteria	Weights	Values (1-None, 5-High)	Values (1-None, 5-High)	Values (1-None, 5-High)	Values (1-None, 5-High)
1. Profitability	10.0%	1 (-395K)-(-409K)/5 Year DCF	4 5.1M-6.9M/5 Year DCF	2 102K-2.0M/5 Year DCF	2 393K-2.1M/5 Year DCF
2. Revenue Growth	30.0%	1 Low: 50.1M/5 Years - business flat or low-growth at max. 5% p.a.	3 Moderate: 57.9M/5 Years- sustained growth from 10 to 18% p.a. from moderate functional improvements and vertical market solutions	4 Moderate-High: 62.6M/5 Years- business growing 12%-24% p.a. from faster functional improvements and faster development of vertical templates	2 Moderate: 56M/5 Years - improved functionality and growth at market rate max. 12%
3. Market Diversification	20.0%	0.25 Low	0.55 Moderate	0.75 Moderate - High	0.3 Low
Horizontal commercial	5.0%	2 Low - appeals to low end of SMB Market	2 Low - organic improvements to products	3 Moderate - acquire or build horizontal functionality to improve appeal	3 Moderate - acquire or build horizontal functionality to improve appeal
Vertical commercial	15.0%	1 No entry	3 Moderate - develop vertical market templates at moderate rate	4 Moderate-High - develop vertical market templates at rapid rate	1 No entry
4. Geographic Diversity	0.0%	0 Low	0 Moderate	0 Moderate	0 Low
North America	0.0%	1 Low - slow growth trajectory	3 Moderate - increased marketing activities	4 Moderate-High - significantly increased marketing activities	3 Moderate - increased marketing activities
International	0.0%	1 Low - no new investment in international business	3 Moderate - increased marketing activities, improved localization	4 Moderate-High - significantly increased marketing activities, improved localization	2 Moderate - increased marketing activities, improved localization
5. Market Attractiveness	5.0%	0.02 Low	0.06 Moderate	0.05 Moderate	0.02 Low
Threat of Entry by Competitors	1.0%	1 Low - No significant improvements to function or strategy to change competitive landscape	3 Moderate - vertical product development and narrow market focus increases barrier of entry. Higher potential for competitor response in smaller markets.	2 Moderate-Low - vertical product development and narrow market focus increases barrier of entry. Higher capital requirements. Higher potential for competitor response in smaller markets.	1 Low - No significant improvements to function or strategy to change competitive landscape
Supplier (Firm) Power	1.0%	1 Low - minimal differentiation by the firm	3 Moderate - increase in buyer concentration offset by higher importance to buyer and increased buyer cost reduction	3 Moderate - increase in buyer concentration offset by higher importance to buyer and increased buyer cost reduction	1 Low - minimal differentiation by the firm
Buyer (Customer) Power	1.0%	1 Low - minimal changes	1 Low - minimal changes	1 Low - minimal changes	1 Low - minimal differentiation by the firm
Substitutes	1.0%	3 Moderate - customers can substitute an industry vertical solution	3 Moderate - customers can substitute a horizontal solution	3 Moderate - customers can substitute a horizontal solution	3 Moderate - customers can substitute an industry vertical solution
Rivalry	1.0%	1 Low - minimal differentiation by the firm	3 Moderate - fewer rivals, higher product differentiation, strategic diversity	3 Moderate - fewer rivals, higher product differentiation, strategic diversity	1 Low - many competitors
6. Feasability	20.0%	3.75 Moderate	5.05 Moderate-High	6.2 High	1.7 Low
Resource availability	10.0%	5 High - existing budget and cash flow can support this plan	4 Moderate-High - existing budget and cash flow can support this plan but growth numbers have not been proven.	4 Moderate-High - the firm's sole shareholder has guaranteed a line of credit of $2.8M for the firm	1 Low - Existing budget would need to be re-worked. New software must be developed for online customer acquisiton and management. Growth numbers are unproven.
Employee morale	5.0%	3 Moderate - no change	4 Moderate-High - growth, hiring, profitability	5 High - new investment, growth, hiring, profitability, speed	1 Low - restructuring and job losses, smaller company
Cloud transition	5.0%	1 Low - slow functional transition. Windows codebase a problem.	3 Moderate - faster functional transition. Maintenance mode on Windows codebase.	3 Moderate - faster functional transition. Maintenance mode on Windows codebase.	5 Fast - focus on rapid transition to cloud. Close out Windows product or sell off/license to external firm
7. Brand value	15.0%	1 Low - no significant change	3 Moderate - vertical markets accept solutions; brand develops stronger in smaller niche markets	4 Moderate - vertical markets accept solutions, additional horizontal functionality appeals; brand develops stronger in smaller niche markets .	2 Low-Moderate - new customers accept; past Windows customers do not. Brand experiences a low-moderate growth in awareness.
Totals	100.0%	1.35	2.87	3.39	1.24

Source: Author, adapted from Boardman, Shapiro, Vining 2004

9: External environment analysis of the strategic alternatives

This section considers the value of each scenario in the context of its external environment and its competitors.

9.1 Response by and fit for external environment

The macroeconomic environments in the firm's key markets vary. In the European Union, the economy is expected to remain relatively stagnant with small shrinkage in GDP until late in 2013, when it will return to growth in 2014 and 2015 (The Conference Board, 2013). Key geographies for the firm such as the UK, France and Spain remain in recession with the remainder largely in recession except Poland and Norway whose economies will expand in 2013. Growth outside the euro zone will also remain weak. This suggests that the company will see less immediate opportunity for growth in these markets but should prepare for growth in 2014 and beyond.

The Australian market in which the firm has offices is expected to grow at a moderate pace for 2013, forecasting 3% in GDP growth for 2013. The firm derives about 8% of its revenues from this market. Australia's growth forecast is greater than any of its geographies, suggesting the company increase its marketing activities in that region to take advantage of this growth.

The U.S. market continues its recovery. The U.S. economy is growing slowly but is expected to accelerate throughout 2013 (The Conference Board, 2013). This market represents approximately 39% of the company's business, suggesting the firm should continue to focus its efforts on growth in this market.

The Canadian market remains relatively steady with GDP growth between 2%-3%, expecting to gain 1.8% in 2013 (RBC Economics Research, 2013). This market represents approximately 39% of the company's business, suggesting opportunities for growth in Canada, its traditionally strongest market.

Difficult economic markets present risk and opportunity for the company. Risk is obvious as companies slow spending on enterprise software. However, these conditions also present an opportunity for firms in the CRM market who offer improvements and competitive advantages for customer-facing activities. In this regard, the company may be able to define a marketing strategy to capitalize on the CRM value proposition in terms of efficiency and competitive advantage.

Continued low interest rates globally suggest that the cost of borrowing will continue to keep the company's cost of money at a relatively attractive level. However, the company's ability to borrow will be constrained by its poor balance sheet and financial performance prior to FY2013. This will suggest that shareholders will remain its obvious source of borrowing. No other strategic options presented here contemplate additional borrowing.

9.2 Potential competitive responses

The company's changes to its current strategy may provoke a competitive response from existing market participants. Some of those potential responses are considered here.

For the firm's existing strategic group in the horizontal CRM market serving the SMB segment, changes to the firm's product functionality will likely not provoke a response unless an unanticipated disruptive technology is discovered. If the firm changes pricing and begins to gain market share, this will be noticed and competitors may follow the pricing downwards. Attempts to raise price in this market will likely not be followed but will result in competitors simply taking advantage of the firm's decreased price competitiveness in a horizontal and largely undifferentiated space that is more price sensitive. The size of the SMB market and a CRM adoption rate at 51% (Computer Economics, 2012) suggests that there is still a large untapped market opportunity that would minimize competitors' reactions to the firm's moves based on the firm's price-taking behaviour. In the horizontal space the firm operates in nearly perfectly competitive market, but where there are many small firms with nominally differentiated products that are near perfect substitutes. Larger firms with significant collective market share that tacitly collude on price (e.g., Salesforce.com, Microsoft, Oracle) can behave in a fashion similar to a monopoly (Martinez-sanchez, 2012). As such they have the potential to set pricing that could cue other firms to follow suit. This would require tacit collusion in order to have any effect. Martinez-sanchez suggests that minimally differentiated products in the software industry make it difficult for firms to engage in tacit collusion. The near-zero marginal cost of producing software means that profitability exists in a wide enough range to invite tacitly colluding firms to cheat and break the collusion. In this respect, all participants are de-facto price-takers without an individual ability to set price.

In the firm's potential vertical markets, there are far fewer competitors as competition is constrained to a given strategic group. If each industry vertical market in the SMB segment defines a strategic group, the firm can narrow its customer definition according to the differentiated needs of that customer segment. The narrower the definition, the more likely the firm will find unoccupied 'blue ocean' space where it can compete more effectively than horizontal participants, dominate a market and deter entrants. In this respect, it would operate as a monopolistically competitive firm with an ability to extract rents above zero (some ability to set price based on its unique functionality for the industry-specific market). The proposed alternatives to enter vertical markets leverage the relatively low cost of customizing the firm's software to present a cost-effective solution for numerous industry vertical markets of virtually any defined size. Should the firm enter a market with an incumbent competitor, the competitor's response will be to compete on price and features. This will force the firm to rapidly develop competitive functionality and compete on price in a smaller space. However, the advantage to the firm of a multi-market entrance instead of a single-market entrance is that it gains a competitive advantage over firms that are entirely dependent on one market. The firm could force single-market competitors to concede or exit where the firm selectively competes on price in one market while retaining profitability across its remaining markets. As long as the firm avoids a protracted price war across multiple markets, it should find strength in a multi-market industry vertical strategy. Above-average rents will make these markets more profitable for the firm.

The cloud-only solution represents a significant shift to compete on price and features in a large horizontal market. Although the horizontal market is large, the differentiation is low and the firm will be dependent on significant marketing costs to attract customers in such a large space. R&D costs will be higher as companies push to differentiate themselves with horizontal functionality. The firm will operate in a market that is much closer to a perfectly competitive market where rents will approach zero – an inability to extract profits above the market average. Competitors will not react specifically to the firm's modified strategy in this respect, and will acquire customers based on brand and functional differences.

10: Evaluating alternatives for Maximizer Software

This section will review the cash flow impacts of each scenario based on the pro-forma income statements for each scenario described in Appendix C and the Valuation Matrix shown in Table 14.

10.1 Maintaining the status quo

The status quo impact shows a negative discounted cash flow over five years. Sensitivity based on shareholders' expectations of returns between 12% and 3% show a DCF loss of (875k) to (1.18M) respectively. Revenues are projected to grow from 7.5M in FY2012 to 15M in FY2017. Growth assumptions are based on:

1) A 20.7% growth rate expected from identified sales and marketing inefficiencies that can be corrected with existing resources;

2) A 5% growth rate (under market growth of 12%) based on lack of differentiation and brand awareness in a large horizontal market.

This benchmark clearly demonstrates that the company could not continue with the status quo, primarily on the inability to sustain the firm's operating expense structure.

Table 15: Maintaining the status quo - DCF 2013-2017

Status Quo DCF		1	2	3	4	5
Period		FY2013	FY2014	FY2015	FY2016	FY2017
Cash Flows		(228,887)	(236,419)	(244,327)	(252,631)	(261,350)
	Sensitivity Analysis					
Discount Rate	12.00%	6.00%	3.00%			
5-Year Revenue	50,115,211					
PV	(875,590)	(1,026,888)	(1,118,563)			

In mid-2012, the firm undertook a restructuring with the objective of repositioning for consistent profitability. However, continued declining revenues in the horizontal market remain a threat until the company can make a material change to its competitive landscape. In this respect, maintaining the status quo is not a viable option for the firm, and it is not surprising that the valuation matrix assessment Table 14 scores this option the third most attractive of four.

10.2 Industry-specific vertical market expansion

The impact of expansion into new strategic groups in industry-specific vertical markets forecasts a positive cash flow over five years. Using the same shareholder return assumptions of 12% to 3% forecast a DCF in five years ranging from 3.5M and 4.6M respectively. Revenues are projected to grow from the firm's FY2012 result of 7.5M to 15M in FY2017.

Table 16: Industry-specific vertical market expansion DCF 2013-2017

Vertical Expansion DCF		1	2	3	4	5
Period		FY2013	FY2014	FY2015	FY2016	FY2017
Cash Flows	-	781,793	867,798	981,324	1,129,664	1,347,089
	Sensitivity Analysis					
Discount Rate	12.00%	6.00%	3.00%			
5-Year Revenue	57,988,841					
PV	3,570,616	4,235,239	4,640,758			

This plan does not anticipate additional investment, but rather depends initially on operational expense reductions that have already been taken (this model reflects the operating budget in place for FY2013), along with the following assumptions:

1) A 20.7% growth rate expected from identified sales and marketing inefficiencies that can be corrected with existing resources;

2) A 10% growth rate (under market growth of 12%) gradually growing to 18% in the fifth year (6% above market) based on the firm's ability to enter several vertical markets that will enable it to seek above average rents from its highly differentiated vertical solutions.

In FY2013, the firm began executing on this strategy with the development of its first industry-vertical solution for private wealth management. The valuation matrix analysis suggests that the early head start on this strategy aligns well with this option scoring second-place and aligning with the first-place option.

10.3 Industry-specific vertical market expansion with additional investment

This strategy expands into industry vertical markets and considers the effects of an investment of between 2M and 2.7M based on a range of shareholder expected returns of 12%-3% respectively. Revenues are forecast to grow from 7.5M in FY2012 to 17M in FY2017. The following assumptions were used in this model:

1) The range of investment between 2M and 2.7M were derived from the range of investment where the firm's net income equals zero;

2) A 20.7% growth rate expected from identified sales and marketing inefficiencies that can be corrected with existing resources;

3) A 12% growth rate (equal to market growth of 12%) gradually growing to 24% in the fifth year (12% above market) based on the firm's ability to enter several vertical markets faster than it otherwise would without additional investment. This would enable it to seek above average rents from its differentiated vertical solutions.

Table 17: Industry-specific vertical market expansion with additional investment DCF 2013-2017

Vertical Expansion + Investment DCF		1	2	3	4	5
Period		FY2013	FY2014	FY2015	FY2016	FY2017
Cash Flows	(2,080,621)	414,161	473,251	561,491	689,439	873,685
	Sensitivity Analysis					
IRR	12.00%	6.00%	3.00%			
5-Year Revenue	62,684,016					
PV	-	401,696	647,611			

The decision to select this strategy will be dependent on the shareholder's appetite to provide additional investment and defer the majority of benefits through to FY2017 at which point the firm will be able to generate significant profits above market average. This option was scored as the most attractive option by the valuation matrix in Table 14, beating out its non-investment alternative by a score of 3.39 versus 2.87.

10.4 Horizontal cloud-only strategy

This strategy depends on a radical cut to operating costs in sales and professional services teams to focus on a web-centric customer acquisition strategy with services supplied by channel partners instead of directly. No additional investment is contemplated here. Cash flows are projected to range from 1.3M to 1.7M on investor returns of 12% and 3% respectively. Revenues are expected to grow from 7.5M in FY2012 to 14M in FY2017. The following assumptions were used in this model:

1) A 20.7% growth rate expected from identified sales and marketing inefficiencies that can be corrected with existing resources;

2) A 10% growth rate (under market growth of 12%) gradually growing to 12% in the fifth year (equal to market rate) based on the firm's continued competition in the horizontal market that would exist in a near-perfectly competitive market and inability to grow faster than the market.

Table 18: Horizontal cloud-only strategy DCF 2013-2017

Horizontal Cloud-Only DCF		1	2	3	4	5
Period		FY2013	FY2014	FY2015	FY2016	FY2017
Cash Flows	-	292,684	329,777	378,741	433,579	494,999
	Sensitivity Analysis					
IRR	12.00%	6.00%	3.00%			
5-Year Revenue	56,759,370					
PV	1,350,224	1,600,943	1,753,827			

This option was explored in order to assess the value of a strategy similar to new market entrants currently enjoying strong revenue growth. Although revenue growth is considerable, the lack of differentiation constrains growth, and the increased expense expectations for marketing and R&D limit the shareholder value. This option is also extremely disruptive and tangential to the firm's current trajectory. In all, there are few merits to this strategy, and unsurprisingly the valuation matrix in Table 14 scored this strategy fourth of four options.

10.5 Risks and Sensitivities

The risks and sensitivities involved with this analysis include the following:

1) Revenue estimates are based solely on the author's own 30-years of experience in technology sales, but his limited experience specifically in the CRM market. As such, the revenue growth expectations may not be fully realized;

2) The expectations are that the firm can rapidly develop vertical market templates using approximately 400 FTE hours. If these hours are significantly greater, costs, time-to-market and revenue growth may be negatively impacted;

3) Competitors may observe the firm's strategic moves and seek to imitate them. The technology of the vertical market templates is highly imitable. If a competitor enters the firm's chosen markets, the firm may not realize projected revenues and may experience margin pressure

4) The analysis does not provide detail around specific markets and their attractiveness. The strategy depends on the firm's ability to find industry vertical markets that can be cost-effectively entered and dominated;

5) The analysis does not discuss specific functionality for vertical markets. The assumption is that the firm's experience producing a single vertical market template in private wealth management is typical in effort and duration.

6) The firm has not tested the willingness to pay for a vertical market template. Until the firm can obtain customers for the product, the viability of the strategy remains in question.

11: Recommendations and Conclusion

Maximizer Software has arrived at a corporate crossroads. It enjoys participation in a relatively high growth market with only 51% of users having adopted the market solution. The domain of prospective customers extends to businesses of any size and market from a single proprietor to the largest multinational enterprises. The firm already enjoys a significant understanding and brand value in the SMB market. The attractiveness of the market is reasonable as are the macroeconomic conditions it currently operates in. The firm's employees are skilled and are capable of developing high quality products. The firm's ownership is well financed and stable. The barriers to the firm's success have been:

1) An undifferentiated offering in a crowded horizontal market;
2) A position in a strategic group that is a natural entry point for new entrants, intensifying competition;
3) Operating expenses out of line with revenue growth.

In order to address these problems, the company should take the following actions:

1) Establish a rigorous product marketing process that can objectively identify and prioritize product development activities;

2) Implement a strategy to enter a series of industry-specific vertical markets with ‘templates’ developed for those markets, whether directly or via channel partnerships;

3) Focus the entire firm on a customer-intimate (differentiated focus) position in the horizontal market where the firm seeks customers that require some form of customization and/or integration that would differentiate the firm’s horizontal offering and increase the customer’s willingness to pay;

4) Manage operating expenses carefully in order to maximize profits that can be directed back into R&D and marketing efforts for the new vertical market strategy;

5) Pursue an additional 2M – 2.7M investment from the firm’s shareholder in order to accelerate the firm’s expansion into new vertical markets and thereby accelerate revenue growth.

A form of vertical market participation is necessary in order to sustain revenue growth and profitability in a feasible way.

With this strategy, the company can realize unprecedented success measured in sustainable revenue growth and profitability.

Appendices

Appendix A: Maximizer Software Inc. Income Statements 2010-2012

Maximizer Software Inc 1 1 1
Income Statement
For the 12 Month Ending 30, November 2010

	FY 2010	FY 2011	FY 2012
Revenue:			
Software Sales	3,573,156.25	3,324,772.28	2,800,754.71
Service Revenue	4,829,481.10	4,549,160.62	4,700,062.38
Shipping & Handling Revenue	28,136.89	19,274.04	14,478.04
Other Revenue	31,139.60	0.00	0.00
Total Revenue	8,461,913.84	7,893,206.94	7,515,295.13
COS - License	245,258.55	147,885.41	114,107.34
COS - Professional Services	388,468.81	463,173.43	616,446.92
COS - Customer Support	885,945.68	677,773.65	593,487.93
Total Cost of Sales	1,519,673.04	1,288,832.49	1,324,042.19
Gross Margin	6,942,240.80	6,604,374.45	6,191,252.94
Sales Expense	1,967,452.23	1,966,112.09	1,689,618.92
Marketing Expense	700,553.30	539,177.99	627,394.49
Research & Development Expense	2,361,603.11	2,035,736.47	1,593,539.36
Administrative & Other Expense	2,666,223.85	2,215,055.81	2,020,177.46
Depreciation & Amortization	142,281.96	120,200.21	128,096.43
Bad Debt Expense	(318,329.30)	50,741.41	172,188.27
Total Operating Expense	7,519,785.15	6,927,023.98	6,231,014.93
Operating Income (Expenses)	(577,544.35)	(322,649.53)	(39,761.99)
Interest Expense	40,170.88	50,086.39	70,495.89
Interest Income	(33,781.56)	(67.00)	(144.03)
Restructuring Costs	471,037.88	(30,436.65)	501,951.65
Foreign Exchange	73,430.45	26,844.94	51,973.89
Total Other Expense (Income)	550,857.65	46,427.68	624,277.40
Earnings before Income Tax	(1,128,402.00)	(369,077.21)	(664,039.39)
Income Tax Expense	0.00	0.00	0.00
Earnings After Tax	(1,128,402.00)	(369,077.21)	(664,039.39)

Source: Author, Maximizer Software Inc.

Appendix B: Maximizer Software Inc. Balance Sheets 2010-2012

Maximizer Software Inc

For the Twelve Months Ending 30, November 2012

	FY 2010 November	FY 2011 November	FY 2012 November
BALANCE SHEET			
ASSETS			
Current assets			
Cash and cash equivalents	(480,419.00)	(148,522.00)	89,956.00
Accounts receivable	256,061	643,226	579,638
Maximizer Asia Ltd. (HK)	0	41,506	48,156
Inventory	37,171	21,838	14,689
Prepaid expenses	194,378	164,941	99,254
	------------------	------------------	------------------
Total Current assets	7,192	722,989	831,694
Plant and equipment	376,746	340,920	367,181
Promissory note receivables	410,000	0	0
Investments	630,204	630,204	630,204
	------------------	------------------	------------------
TOTAL ASSETS	1,424,142	1,694,113	1,829,079
	============	============	============
LIABILITIES & SHAREHOLDERS' EQUITY			
Current Liabilities			
Line of Credit - HSBC	0	0	2,222,000
Accounts payable and accrued liabilities	1,769,230	1,573,344	1,559,185
Deferred revenue	2,325,759	2,199,156	2,275,376
Due to related parties & Intercompany	75,600	(573,091)	(748,152)
Line of Credit - Concord Pacific	0	126,534	300,233
	------------------	------------------	------------------
Total Current Liabilities	4,170,588	3,325,943	5,608,641
	------------------	------------------	------------------
Shareholders' Loan	0	1,483,693	0
Shareholders' deficiency			
Share capital	422,478	422,478	422,478
Contributed surplus	(2,385,090)	8,723,748	8,723,748
Retained earnings (deficit) - beginning of year	345,113	(11,892,671)	(12,261,748)
Current year income (loss)	(1,128,947)	(369,077)	(664,039)
	------------------	------------------	------------------
Total shareholders' deficiency	(2,746,446)	(3,115,522)	(3,779,561)
	------------------	------------------	------------------
TOTAL LIABILITIES & S/H DEFICIENCY	1,424,142	1,694,114	1,829,080
	============	============	============

Appendix C: Pro-Forma Income Statements for Strategic Options

Strategy: Operational efficiency only - Status Quo FY2012					
Plan A Growth	20.7%	5.0%	5.0%	5.0%	5.0%
Plan A Assumptions	FY2013	FY2014	FY2015	FY2016	FY2017
37.3%	3,380,000	3,549,000	3,726,450	3,912,773	4,108,411
62.5%	5,672,118	5,955,724	6,253,510	6,566,185	6,894,495
0.2%	17,472	18,346	19,263	20,226	21,238
0%	-	-	-	-	-
100.0%	9,069,590	9,523,070	9,999,223	10,499,184	11,024,144
1.5%	137,707	144,592	151,822	159,413	167,383
8.2%	743,939	781,136	820,193	861,202	904,262
7.9%	716,232	752,043	789,645	829,128	870,584
17.6%	1,597,877	1,677,771	1,761,660	1,849,743	1,942,230
82.4%	7,471,713	7,845,298	8,237,563	8,649,442	9,081,914
22.5%	2,039,062	2,141,015	2,248,066	2,360,469	2,478,492
8.3%	757,151	795,008	834,759	876,497	920,321
21.2%	1,923,111	2,019,267	2,120,230	2,226,242	2,337,554
26.9%	2,437,986	2,559,885	2,687,879	2,822,273	2,963,387
1.7%	154,589	162,318	170,434	178,956	187,904
2.3%	207,800	218,190	229,099	240,554	252,582
82.9%	7,519,698	7,895,683	8,290,467	8,704,991	9,140,240
-0.5%	(47,985)	(50,385)	(52,904)	(55,549)	(58,327)
Equal to FY2012	70,496	70,496	70,496	70,496	70,496
0.0%	-	-	-	-	-
0.3%	25,000	26,250	27,563	28,941	30,388
0.7%	62,723	65,859	69,152	72,610	76,240
1.7%	158,219	162,605	167,211	172,046	177,124
-2.3%	(206,204)	(212,990)	(220,114)	(227,595)	(235,450)
11.0%	(22,682)	(23,429)	(24,213)	(25,035)	(25,900)
-2.5%	(228,887)	(236,419)	(244,327)	(252,631)	(261,350)

Strategy: Customer intimate, industry vertical templates, revenue-driven investment					
Plan B Growth	20.7%	10.0%	12.0%	14.0%	18.0%
Plan B Assumptions	FY2013	FY2014	FY2015	FY2016	FY2017
37.3%	3,380,000	3,718,000	4,164,160	4,747,142	5,601,628
62.5%	5,672,118	6,239,330	6,988,049	7,966,376	9,400,324
0.2%	17,472	19,220	21,526	24,540	28,957
0%	-	-	-	-	-
100.0%	9,069,590	9,976,549	11,173,735	12,738,058	15,030,909
1.5%	137,707	151,477	169,655	193,406	228,220
8.2%	743,939	818,333	916,533	1,044,847	1,232,920
7.9%	716,232	787,855	882,397	1,005,933	1,187,001
17.6%	1,597,877	1,757,665	1,968,585	2,244,187	2,648,140
82.4%	7,471,713	8,218,884	9,205,150	10,493,871	12,382,768
19.8%	1,795,809	1,975,390	2,212,437	2,522,178	2,976,170
8.3%	757,151	832,866	932,810	1,063,403	1,254,816
23.0%	2,085,321	2,293,853	2,569,115	2,928,792	3,455,974
17.7%	1,608,506	1,769,357	1,981,679	2,259,115	2,665,755
1.7%	154,589	170,048	190,454	217,117	256,198
2.3%	207,800	228,580	256,009	291,851	344,384
72.9%	6,609,176	7,270,093	8,142,504	9,282,455	10,953,297
9.5%	862,537	948,791	1,062,646	1,211,416	1,429,471
Equal to FY2012	70,496	70,496	70,496	70,496	70,496
0.0%	-	-	-	-	-
0.3%	25,000	27,500	30,800	35,112	41,432
0.7%	62,723	68,995	77,275	88,093	103,950
1.7%	158,219	166,991	178,571	193,701	215,878
7.8%	704,318	781,800	884,075	1,017,715	1,213,593
11.0%	77,475	85,998	97,248	111,949	133,495
8.6%	781,793	867,798	981,324	1,129,664	1,347,089

Strategy: Customer intimate, industry vertical templates, shareholder-driven investment

Plan C Growth	20.7%	12.0%	16.0%	20.0%	24.0%
Plan C Assumptions	FY2013	FY2014	FY2015	FY2016	FY2017
37.3%	3,380,000	3,785,600	4,391,296	5,269,555	6,534,248
62.5%	5,672,118	6,352,772	7,369,216	8,843,059	10,965,393
0.2%	17,472	19,569	22,700	27,240	33,778
0%	-	-	-	-	-
100.0%	9,069,590	10,157,941	11,783,212	14,139,854	17,533,419
1.5%	137,707	154,232	178,909	214,690	266,216
8.2%	743,939	833,212	966,526	1,159,831	1,438,190
7.9%	716,232	802,179	930,528	1,116,634	1,384,626
17.6%	1,597,877	1,789,623	2,075,962	2,491,155	3,089,032
82.4%	7,471,713	8,368,318	9,707,249	11,648,699	14,444,387
19.8%	1,795,809	2,011,306	2,333,115	2,799,738	3,471,675
12.0%	1,088,351	1,218,953	1,413,985	1,696,782	2,104,010
23.0%	2,085,321	2,335,560	2,709,249	3,251,099	4,031,363
17.7%	1,608,506	1,801,527	2,089,771	2,507,725	3,109,579
1.7%	154,589	173,140	200,842	241,010	298,853
2.3%	207,800	232,736	269,974	323,968	401,721
76.5%	6,940,376	7,773,221	9,016,936	10,820,323	13,417,201
5.9%	531,337	595,098	690,313	828,376	1,027,186
Equal to FY2012	70,496	70,496	70,496	70,496	70,496
0.0%	-	-	-	-	-
0.3%	25,000	28,000	32,480	38,976	48,330
0.7%	62,723	70,250	81,490	97,788	121,257
1.7%	158,219	168,746	184,466	207,260	240,083
4.1%	373,118	426,352	505,848	621,116	787,103
11.0%	41,043	46,899	55,643	68,323	86,581
4.6%	414,161	473,251	561,491	689,439	873,685

Strategy: Operational efficiency, horizontal market, radical strategy shift to online only strategy					
Plan D Growth	20.7%	10.0%	12.0%	12.0%	12.0%
Plan D Assumptions	FY2013	FY2014	FY2015	FY2016	FY2017
40.0%	3,380,511	3,718,562	4,164,789	4,664,564	5,224,312
59.8%	5,672,975	6,240,273	6,989,106	7,827,798	8,767,134
0.2%	17,475	19,222	21,529	24,113	27,006
0%	-	-	-	-	-
100.0%	9,070,961	9,978,057	11,175,424	12,516,475	14,018,452
1.5%	137,728	151,500	169,680	190,042	212,847
8.2%	744,051	818,457	916,671	1,026,672	1,149,873
7.9%	716,340	787,974	882,531	988,434	1,107,047
17.6%	1,598,119	1,757,931	1,968,883	2,205,148	2,469,766
82.4%	7,472,842	8,220,127	9,206,542	10,311,327	11,548,686
8.0%	725,677	798,245	894,034	1,001,318	1,121,476
18.0%	1,632,773	1,796,050	2,011,576	2,252,966	2,523,321
30.0%	2,721,288	2,993,417	3,352,627	3,754,943	4,205,536
17.7%	1,608,749	1,769,624	1,981,979	2,219,816	2,486,194
1.7%	154,612	170,074	190,482	213,340	238,941
2.3%	207,831	228,614	256,048	286,774	321,187
77.7%	7,050,931	7,756,024	8,686,747	9,729,157	10,896,656
4.7%	421,911	464,102	519,795	582,170	652,030
Equal to FY2012	70,496	70,496	70,496	70,496	70,496
0.0%	-	-	-	-	-
0.0%	25,004	27,504	30,805	34,501	38,641
0.7%	62,732	69,006	77,286	86,561	96,948
1.7%	158,232	167,006	178,587	191,558	206,085
2.9%	263,679	297,097	341,208	390,612	445,945
11.0%	29,005	32,681	37,533	42,967	49,054
3.2%	292,684	329,777	378,741	433,579	494,999

Appendix D: Competitive Functional Analysis

Group	Sub-group	Feature	Google Gmail	Microsoft Outlook	Zoho	Sugar	Sage	Microsoft Dynamics CRM	InfusionSoft	Oracle CRM	Salesforce.com	Maximizer
		Key Markets	A	A	S	A	S	A	S	L	A	S
Services		Support	L	L	L	Y	Y	L	Y	A	Y	Y
Services		Deployment	U	U	D	D	D, P	P	P	P	D, P	D, U, P
Services		Customization	N	N	Y	Y	Y	Y	L	Y	Y	Y
Services		Integration	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Deployment Type		Desktop	N	N	N	N	N	N	N	Y	Y	Y
Deployment Type		Public Cloud	Y	Y	Y	Y	Y	Y	N	N	Y	Y
Deployment Type		Private Cloud	N	N	N	Y	N	Y	N	Y	N	Y
Deployment Type		On-Premise Web	N	Y	Y	Y	Y	Y	N	Y	N	Y
Deployment Type		Partner Hosted	N	Y	N	Y	N	Y	N	Y	N	Y
Deployment Type		Mobile	Y	Y	Y	A	Y	Y	N	A	Y	Y
Functionality	Sales Force Automation	Contact Mgt.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Opportunity Mgt.	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Lead Mgt.	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Quoting	N	N	Y	Y	N	Y	Y	A	Y	N
Functionality	Sales Force Automation	Configurator	N	N	N	N	N	N	N	A	N	N
Functionality	Sales Force Automation	Calendar	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Call Mgt.	N	N	N	N	Y	Y	N	Y	Y	Y
Functionality	Sales Force Automation	Task Mgt.	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Document Mgt.	N	N	Y	Y	Y	Y	N	Y	Y	Y
Functionality	Sales Force Automation	Order Mgt.	N	N	Y	N	N	N	N	A	N	N
Functionality	Sales Force Automation	Forecasting	N	N	Y	Y	Y	Y	N	A	Y	Y
Functionality	Sales Force Automation	Workflow Automation	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Sales Force Automation	Sales Methodologies	N	N	N	Y	N	Y	N	Y	Y	Y
Functionality	Marketing Automation	Campaign Mgt.	N	N	Y	Y	Y	Y	Y	A	Y	Y
Functionality	Marketing Automation	Email	Y	Y	Y	Y	Y	Y	Y	A	Y	Y
Functionality	Marketing Automation	Web-to-Lead	N	N	A	Y	N	N	Y	Y	Y	Y
Functionality	Marketing Automation	Lead Nurturing	N	N	N	N	N	N	Y	Y	N	N
Functionality	Customer Service	Case Management	N	N	Y	Y	Y	Y	N	Y	A	Y
Functionality	Customer Service	Knowledgebase	Y	Y	Y	Y	Y	Y	N	N	A	Y
Functionality	Customer Service	Self-Service	N	N	N	Y	N	N	N	N	A	N
Functionality	Self-Service Portal	Order Mgt.	N	N	N	N	N	N	N	N	N	N
Functionality	Self-Service Portal	Case Mgt.	N	N	N	Y	N	N	N	N	A	N
Functionality	Social Media Management	Publishing	N	N	N	Y	N	N	N	N	A	N
Functionality	Social Media Management	Filtering	N	N	N	Y	N	N	N	N	A	N
Functionality	Social Media Management	Contacts	N	N	N	Y	N	Y	Y	N	A	Y
Functionality	Social Media Management	Analytics	N	N	N	Y	N	L	Y	N	A	N
Functionality	Online Store	Catalog	N	N	N	N	N	N	Y	N	N	N
Functionality	Online Store	Content Management	N	N	N	N	N	N	Y	N	N	N
Functionality	Online Store	Shopping Cart	N	N	N	N	N	N	Y	N	N	N
Functionality	Reporting	Reports	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Functionality	Reporting	Dashboard	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Functionality	Project Management	Project Mgt.	N	N	N	Y	N	N	N	N	N	N
Functionality	Project Management	GANTT Charts	N	N	N	Y	N	N	N	N	N	N
Functionality	Integrations	Email	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Functionality	Integrations	API	Y	Y	Y	Y	Y	A	N	Y	Y	Y
Functionality	Integrations	MS Office	N	Y	N	Y	N	Y	N	N	N	Y
Functionality	Integrations	Google	Y	N	Y	N	N	N	N	N	Y	N
Functionality	Integrations	Database	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Functionality	Partner Relationship Management	Lead Mgt.	N	N	N	N	N	Y	N	Y	N	N
Functionality	Partner Relationship Management	Order Mgt.	N	N	N	N	N	N	N	N	N	N
Functionality	Partner Relationship Management	Opportunity Mgt.	N	N	N	N	N	Y	N	Y	N	Y
Functionality		Security & Roles	N	N	Y	Y	Y	Y	N	Y	Y	Y
Functionality		Data Storage	A	A	Y	Y	N	Y	N	Y	Y	Y
Functionality		Vertical Templates	N	N	N	N	N	Y	N	Y	Y	Y
Functionality		Multi-Currency	N	N	L	Y	Y	Y	Y	Y	Y	Y
Functionality		Language Support	6	6	6	22	8	41	N	11	16	5

Legend
Y - Yes
N - No
L - Limited Functionality
A - Additional Cost
U - User
D - Direct from Vendor
P - Indirect from Partner

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