

**A CLASSIC CONUNDRUM – THE STRATEGIC ANALYSIS
OF A COMPANY CAUGHT BETWEEN STRATEGIC
ALTERNATIVES**

by

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ABSTRACT

This is a strategic analysis of a small printing company in BC; Classic Impressions (CI). CI is currently caught between a cost-based and a differentiated strategy. The analysis begins with an examination of the very competitive printing industry; which provides an idea of strategic alternatives in operation. A differentiated strategy emerges as being fit for further development. The internal capabilities of CI are reviewed with strengths and weaknesses as well as decision criteria identified. Strategic alternatives are compared against both external and internal criteria. The differentiated alternative is recommended. Recommendations follow with regard to steps that CI would need to take to implement the differentiated alternative. The bulk of research was primary in the form of internal CI documents and interviews with CI's owner and managers over the course of several weeks.

EXECUTIVE SUMMARY

This is a strategic analysis of Classic Impressions Inc, a small printing company in BC. Classic Impressions was purchased from a large company in late 2005 and began independent operations in February 2006, approximately six months ago. Classic Impressions, although relatively successful, is caught between a cost-based and a differentiated strategy with no clear strategy going forward.

An industry analysis revealed that the printing industry is extremely competitive. There are no easy means of achieving success. Key success factors identified in the industry analysis were: Cost, Speed, Flexibility, Quality, Relationships and Contracts, Marketing, Integration and Bundling. The most important factor is cost with the others playing less central roles in determining success. Two companies were used as benchmarks. Premier Envelope was examined as a cost-based competitor. Kirk Marketing was examined as a differentiated competitor. These competitive analyses were used to develop both cost-based and differentiated strategic alternatives for CI. The differentiated strategy was superior.

CI was examined internally. The strengths were Management experience, Speed, Flexibility, Relationships and Innovation. Weaknesses were: Marketing, Financial Management and Processes. Cost-based and differentiated strategic alternatives, including steps to overcome weaknesses, were developed and compared against each other and against the status quo. The differentiated strategy was recommended.

Specific recommendations in support of a differentiated strategy are: Create the vision, Improve marketing, Improve financial management, Increase management's autonomy, Encourage innovation, Become customer focussed, Adopt structured relationship management.

CI can meet with even greater success if it focuses on creating and implementing a coherent differentiated strategy.

DEDICATION

To my wife, Cathy Sichewski, for her loving support and patience.

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The support of my superiors, peers and subordinates on the staff of 39 Canadian Brigade Group was instrumental over the past two years. Two successive superiors, Lieutenant Colonels Paul Dangerfield and John Bagnall, allowed me whatever time off that I needed. My peers took on tasks that otherwise would have come to me and did so with good grace. My own team in the G1 branch was truly remarkable and always ensured that the job got done even when they had to pull my share of the weight. In short, all members of 39 Canadian Brigade Group have my gratitude for their unstinting support. The Canadian Forces have come a long way in support of education over the past several years and without that support I would not have been able to enrol much less complete this program.

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TABLE OF CONTENTS

Approval	ii
Abstract	iii
Executive Summary	iv
Dedication	vi
Acknowledgements	vii
Table of Contents	viii
List of Figures	x
List of Tables	xi
1 Introduction	1
1.1 General	1
1.2 Current CI Strategy.....	3
1.3 Strategies in Use.....	6
1.4 Document Structure.....	8
1.5 Conclusion.....	9
2 External analysis	11
2.1 Introduction	11
2.2 5 Forces Analysis	11
2.2.1 5 Forces analysis: Substitutes (High Impact).....	12
2.2.2 5 Forces analysis: Supplier Power (Medium Impact)	15
2.2.3 5 Forces analysis: Buyer Power (Very High Impact).....	18
2.2.4 5 Forces analysis: New entrants (Very High Impact)	22
2.3 Value Chain Analysis.....	27
2.3.1 Commercial Printing.....	27
2.4 Key Success Factors.....	32
2.4.1 Cost	33
2.4.2 Speed	33
2.4.3 Flexibility	34
2.4.4 Quality.....	34
2.4.5 Relationships and Contracts	35
2.4.6 Marketing	35
2.4.7 Integration and bundling	36
2.4.8 Summary	36
2.5 Two Strategies in Use.....	36
2.5.1 Cost-based strategy: Premier Envelope.....	37
2.5.2 Differentiated strategy: Kirk Integrated Marketing Solutions.....	37
2.5.3 Comparison to KSFs	38
2.6 Opportunities and threats.....	39
2.7 Strategic Alternatives	40

2.7.1	Cost-Based Alternative	40
2.7.2	Differentiated Alternative	41
2.7.3	Comparison of Projected Outcomes.....	43
2.7.4	Comparison to KSFs	46
2.7.5	Recommended Strategic Alternative.....	48
2.8	Conclusion.....	48
3	INTERNAL ANALYSIS	49
3.1	Internal Analysis: Diamond-E analysis	49
3.1.1	Diamond-E analysis: Management preferences	49
3.1.2	Diamond-E analysis: Firm resources	57
3.1.3	Diamond-E analysis: Systems, Structure and Culture.....	61
3.1.4	Diamond-E analysis: Summary.....	65
3.2	Strategy Comparison	66
3.2.1	Cost-Based Strategic Alternative	66
3.2.2	Differentiated Strategic Alternative	69
3.2.3	Comparison to Decision Criteria.....	72
3.3	Internal Analysis: Conclusion	74
4	STRATEGY SELECTION AND DEVELOPMENT	75
4.1	Recommended strategic alternative: Differentiate	75
4.2	Recommendations	75
4.2.1	Recommendation 1: Create the vision.....	76
4.2.2	Recommendation 2: Marketing.....	77
4.2.3	Recommendation 3: Financial and operations management.....	78
4.2.4	Recommendation 4: Autonomy	79
4.2.5	Recommendation 5: Encourage Innovation	81
4.2.6	Recommendation 6: Customer focus	82
4.2.7	Recommendation 7: Relationship management.....	84
4.2.8	Conclusion.....	85
	Appendix A- Additional Value Chains.....	86
	Direct Mail Advertising	86
	Consumer Printing	93
	Appendix B: Short Canada Post Lobbying Paper.....	98
	Appendix C: Customer and Supplier Concentration.....	108
	Appendix D: Ratio Analysis	109
	Appendix E: CI Organization Chart.....	110
	Reference List	111

LIST OF FIGURES

Figure 1: CI Strategic Fit.....	4
Figure 2: Substitutes.....	13
Figure 3: Supplier Power.....	16
Figure 4: Buyer Power	18
Figure 5: New entrants	22
Figure 6: Commercial Printing Value Chain.....	28
Figure 7: Summary of KSFs.....	33
Figure 8: KSF Comparison Matrix.....	38
Figure 9: Strategy Projections	44
Figure 10: Strategic Alternatives and KSFs	47
Figure 11: Decision Criteria Comparison.....	72
Figure 12: Overall Comparison of Alternatives	75
Figure 13: The Direct Mail Value Chain.....	87
Figure 14: Direct Mail KSFs	93
Figure 15: The Consumer Printing Value Chain.....	94
Figure 16: Commercial printing KSFs	97

LIST OF TABLES

Table 1: Management Preferences50
Table 2: Decision Criteria57
Table 3: Firm Resources.....58
Table 4: Systems, Structure and Culture62
Table 5: Summary of Strengths and Weaknesses.....65

1 INTRODUCTION

1.1 General

Classic Impressions (CI) is a printing company operating in British Columbia. It has 30 employees; a small company. CI posted revenues of \$4.2 million in 2005 and is on track to experience 20 percent growth in revenues in 2006.¹ This growth in revenue is being realized despite the extremely competitive nature of the printing industry.

Barry Sikora owns CI. The Sikora family is deeply linked to CI with Barry's spouse and daughter both working there. The family nature of the company has permeated its culture with the result that the work environment is generally positive and supportive. This sense of community lends great strength to CI. Barry's entrepreneurial nature is inextricably linked to CI's strategy and operations. Barry is not just "Dad" to the Sikora family but also to the CI family. He is unquestionably in charge of CI and rules much like a benevolent dictator. This has been very effective thus far.

CI was originally created as Classic Envelopes Plus (CEP), an envelope printing company in 1989 as a partnership between Barry and another owner. Barry specialized in sales while his partner was in operations. CEP specialized in the printing of envelopes. Successful operations eventually resulted in CEP's purchase by Innova² in 1994. Barry was offered a position as vice-president at Innova, along with his share of the sale price. CEP continued to operate as a division of Innova but was run as something of a loss leader and never really found

¹ CI financial reports: FY 2005 and YTD FY 2006

² Innova is a subsidiary of Supremex Inc, Canada's largest envelope manufacturing company

great success. Barry was offered the opportunity to purchase CEP back from Supremex in 2005. He took the opportunity and Barry became the sole owner of CEP in February 2006.

Barry changed CEP's name to CI in a bid both to separate from the uneven reputation that CEP gained during its time under the ownership of Innova and to weaken the link, in customers' minds, with envelope printing alone. Barry retained many existing customer relationships but also began moving CI in some new directions. The focus on envelopes was kept but new markets were accessed through a move into commercial printing. This is a type of horizontal integration as envelope printing has slightly different needs as compared to commercial printing but the two are complementary. Barry's timing for the move into CI was very good as certain segments of the market were experiencing solid growth at the time. The most obvious segment was direct mail advertising which was a double boon for CI. CI not only printed the direct mail advertising material but also the envelopes used to mail it. This helps to explain the 20 percent growth in revenues since Barry's acquisition of the company.

The printing market is very complex and has many segments. Printing includes everything from textbooks and newspapers to envelopes and beer coasters. The industry contributes almost \$5 billion annually to Canada's GDP and has 4500 firms operating within Canada (Government of Canada, 2006)³; 566 of them in BC. The key segments for the purposes of this analysis are: 1) international direct mail advertising⁴, 2) envelope printing⁵ and 3) commercial sheet printing⁶. International direct mail advertising has approximate revenues of \$150 million annually. The entire value chain for this industry is examined in Chapter 2 but printing firms represent a significant portion of this sum. Envelope printing is a larger market

³ Industry Canada figures from 2003

⁴ Direct mail advertising is any printed advertising that reaches the prospective customer through the mail.

⁵ Envelopes can be left blank, printed with addresses, printed with advertising materials or completely printed to a particular colour.

⁶ Commercial printing is any material intended for use by a company for internal purposes: business forms, bills, or letterhead are all examples.

considering that Canada Post moves upward of 11 billion pieces of mail annually (Canada Post, 2006).⁷ Not all of this mail requires printed envelopes but certainly this represents a large national market. Commercial printing is a new element for CI but this could represent markets larger than the first two combined. These are the three major components of CI's revenues. About half of revenues come from envelope printing (including envelopes printed for direct mail purposes) and half split between direct mail advertising material and commercial printing. Interestingly enough, the printing industry has been shrinking in Canada. In 2004, the printing industry's contribution to Canadian GDP shrunk by 1.8 percent. This gives an indication of the high degree of competition in this negative growth market. Incumbent firms are forced to fight for every customer as the market contracts. This trend makes CI's growth all the more impressive by comparison.

1.2 Current CI Strategy

CI is caught between a cost-based and differentiated strategy. In the model at Figure 1: CI Strategic Fit, the best strategies normally fall closer to one end or the other rather than in the middle.

⁷ Canada Post statistics <http://www.canadapost.ca/business/corporate/about/annual_report/highlights2005-e.asp>

Figure 1: CI Strategic Fit

		Cost-based strategy		Differentiated strategy	
		1	←————→		10
Product Strategy	<i>Follower</i>			8	<i>Innovator</i>
R&D Expenses	<i>Low</i>	1			<i>High</i>
Structure	<i>Centralized</i>	1			<i>Decentralized</i>
Decision Making	<i>Less autonomy</i>		3		<i>More autonomy</i>
Manufacturing	<i>Economies of scale</i>			9	<i>Economies of scope</i>
Labour	<i>Lower skill</i>			8	<i>Higher skill</i>
Marketing	<i>Lower cost</i>		2		<i>Higher cost</i>
Risk Profile	<i>Lower</i>		3		<i>Higher</i>
Capital Structure	<i>More leveraged</i>			8	<i>More equity</i>
Average	4.78				

Adapted from Bukszar (2006)

Product Strategy: CI is innovative with its product offerings. It is always looking for new products or combinations of products. This approach has been intensified with the purchase of new machinery.

R&D Expenses: R&D is virtually non-existent at CI, as is the case for most printing firms.

Structure: CI is very centralized with one clear leadership structure that has Barry at its head. It is also physically centralized with only one location for all activities.

Decision Making: Barry is the key decision maker and there are other managers but their autonomy is restricted. The adoption of the Q-Base system has moderated this to some extent but there is little autonomy.

Manufacturing: CI is able to make use of economies of scope with equipment that is capable of producing several different kinds of printed material. The key outputs are printed envelopes and sheets with a wide range of both able to be printed in the same factory. CI uses 11 printing presses. 5 presses are designed to print envelopes, although they are capable of general

printing. The remaining six are general purpose machines that are incapable of printing envelopes.

Labour: Labour is semi-skilled with a high degree of technical skill required to operate machinery. Individual employees are able to operate more than one machine. Sales and administrative staff are also trained at company expense.

Marketing: CI has done very little active marketing instead relying on its sales staff and repeat business. The firm does not expend significant resources neither building a brand nor engaging in promotional activities.

Risk Profile: CI is a privately owned company. There is some acceptance of risk but not to any great degree. Barry has a great deal of his personal finances tied up in CI and he is not willing to gamble it away on high risk ventures.

Capital Structure: CI is almost entirely financed by equity. There are some outside loans from banks but these are a priority item to be paid back. This is more a matter of the owner's preference than a means to undertake higher risk activities unencumbered by debt.

Summary: CI is caught between a cost-based and a differentiated strategy. The differentiated approach comes from the horizontal integration of envelope and commercial printing and the economies of scope that this provides. There is also an ability to differentiate somewhat based on speed of service, which is very important to some customers. The low-cost elements come from a low cost approach and a limit on the quality of printed material that can be produced in-house. The flexibility to switch between types of job is based on a strong labour force and the procurement of multi-purpose machinery. CI is also able to outsource some manufacturing in order to meet customer needs outside of its capability. These firm capabilities combined with strong personal relationships have allowed CI to be successful although good

timing has played a strong role as well. CI needs to clarify its strategy and then purposefully implement it. It is possible to stay in the middle but this is extremely difficult and more often than not, leads to failure. The problem is that differentiation often leads to higher costs while cost reduction leads to less differentiation; the two are not compatible.

CI also faces challenges. The first challenge comes from external sources. International direct mail advertising represents approximately 50 percent of CI's revenue between printed advertising materials and envelopes. Canada Post is taking steps to eliminate portions of this market and the effect could be a loss of between 20-40 percent of CI's business.⁸ The other challenge is to manage and maintain the strong growth experienced thus far in 2006. The future is very uncertain and well considered decisions are needed to chart CI's course. Investment to spur growth could be disastrous if revenues drop by 20-40 percent. CI must manage this risk carefully and take conscious steps to find other market segments to make up for the risky international direct mail market. In the background one must consider that Barry does not wish to spend the remainder of his life at CI. Barry does not have an exact retirement date established but it is roughly within the next five years. He needs to bring CI to the point that he can retire and live off of the proceeds of either a sale or an ongoing revenue stream from operations.

1.3 Strategies in Use

There are two types of strategy at play in the printing market. The first, and by far the most common, is a cost based strategy. The second type of strategy is based on the production of differentiated products. In printing, it is difficult to create a product offering that customers are willing to pay more for. In fact, due to conditions of almost perfect competition in this industry,

⁸ Canada Post is taking action against the international direct mail industry. They have not moved against any other segment of the direct mail advertising industry. This will be discussed in more detail in Chapter 2. A short lobbying paper is at Appendix B

there is little room for premiums as competitors often react quickly and develop premium products of their own.

Cost based strategies are followed by the bulk of printing firms. They tend not to innovate terribly much except where it is in reaction to a first- mover. With over 7000 printing firms in Canada, there is always someone willing to be the first mover but on average it is easier to be a follower once the first mover has proven that there is money to be made. Thus first mover advantages are quickly eroded. There is virtually no R&D conducted by printing firms⁹. All technology is brought in from R&D specialists outside of those actually producing printed materials. Marketing tends toward a focus on sales and relationships rather than mass marketing with large advertising expenditures. Labour is a mix of semi-skilled staff to run advanced printing machinery and lower skilled administrative and sales staff. Risk tolerance is minimal as the returns do not make up for higher risk approaches. The focus of most firms is to keep costs low and quantities produced high, after all- printed paper is printed paper and it is not difficult to find. This is the typical model of a cost-based approach.

Differentiation strategies are harder to establish in this industry. There is intense competition and most producers are required to keep costs low in order to make reasonable returns. That being said, there are occasional examples of firms that are able to produce products that customers are willing to pay something of a premium for.

CI has decisions to make. What approach to strategy should it take, cost-based or differentiated? How should CI grow? What market segments should CI pursue and which ones should it stay away from? How should it be equipped and the labour force trained? These are just some of the questions facing CI. Criteria for decision making will be discussed in more detail in chapter 3. Some of the more central decision criteria are:

⁹ Printing ranked 25th out of 27 Canadian manufacturing industries for R&D expenditures.

1. Effects on growth
2. Capital requirements
3. Degree of change required
4. Effects on existing relationships
5. Timeline (3-5 years)

1.4 Document Structure

This is a strategic analysis of CI. The bulk of the research used in the analysis is based on a series of interviews with Barry, and other key CI staff, between May and August 2006. These interviews have been augmented with secondary research and internal firm documents where possible. The key competition for CI consists of privately owned firms. This fact made it difficult to obtain reliable data. Public sources were not readily available thus necessitating the use of other data. Since exact data was not available, extrapolations were often made from the data that does exist. Comments on any data shortcomings have been made in the analysis as appropriate and any assumptions are clearly stated. The analysis is broken down into the following chapters.

The Industry Analysis in Chapter 2 will make a close examination of factors external to the firm. A 5 Forces analysis will identify those factors at work on the industry as a whole. Once the industry is understood in terms of competitive forces, a value chain analysis will be conducted. The value chain analysis will give an overall picture of the processes being used within the market. This offers the opportunity to learn how various aspects of the market work together to create value for customers. These two analyses combined will provide a good understanding of the industry. The end result will be an identification of the key success factors (KSF) in the industry. The KSFs will be used to develop some decision criteria. Two firms, Premier Envelope and Kirk Integrated Marketing, are held up as examples of cost-based and differentiated strategies operating in the industry. The analysis to this point will produce threats

and opportunities which should be reacted to. The benchmarks developed from this analysis will be used to compare CI's strategic alternatives, in chapter 3.

The internal analysis in Chapter 3 will make a close examination of those factors internal to CI in order to evaluate the strategic alternatives developed in Chapter 2. The format to be used is the Diamond-E (Crossan et al, 2004). This format is useful for dissecting the internal attributes of a firm and linking them to the current strategy. These factors will be considered and core competencies identified. Once the firm is understood it will be compared against the KSFs identified in Chapter 2 to see how well it is doing. The strategic alternatives developed in Chapter 2 will be compared against CI's internal capabilities. Any gaps between CI's current capabilities and what they would need to implement a strategic alternative are also made clear. A preferred strategic alternative, based on the internal analysis will be identified.

Chapter 4 will see the selection of a strategy for CI based upon those proposed in Chapters 2 and 3. The selected strategy will be developed in some further detail. Recommendations on how to implement the selected strategic alternative and to close the internal capability gaps are provided. The strategy will stand as a potential avenue for CI to advance upon. It will not move to the point of being an implementation plan. Chapter 4 ends with a summary and conclusion for the paper.

1.5 Conclusion

This analysis will show that CI is a good company faced with significant choices. It has just come out from corporate ownership into the hands of an entrepreneur. The future of the firm will be determined by some of the decisions made in these early days. There is a strong temptation to view the current level of profitability as a long-term condition but this is a dangerous line of thinking. To succeed CI must make use of its strong current growth to make gains for the future. Time is of the essence and complacency will cost CI money at least and may

result in significant losses in market share in the long-term. If CI can do all of this successfully then Barry can look forward to early retirement and more vacation time, if not then the future could easily become ominous instead of promising.

2 EXTERNAL ANALYSIS

2.1 Introduction

This external analysis will provide an understanding of the market and the forces operating on it. This understanding will allow for a clear eyed view of what CI must cope with to survive and thrive. The choice to conclude with a consideration of some basic strategies in use is designed to provide both a framework for assessing CI's current strategy and to allow for strategy development later in the paper. Two types of analysis will be conducted. The first is a 5 Forces analysis and the second is a value chain analysis. These are complimentary approaches that often produce stronger findings than either approach alone. The intention of these analyses is to identify some of the Key Success Factors (KSFs) operating in the printing industry. The first 4 Forces will be examined, followed by the value chain analysis and then the 5th Force (Rivalry) will be considered based on the overall assessment of factors.

2.2 5 Forces Analysis

There is a need to understand the forces at work within the industry. A 5 Forces analysis (Porter, 1980) is one way to understand the forces at play. The 5 Forces analysis does not focus as much on the exact operation of the industry as it does on the pressures within and around an industry. Porter argues that one has to consider these pressures in the development of strategy. Industries all have different characteristics but they also have some common sources of competitive pressure in operation. There are five forces, commonly identified by Porter, which affect the level of competitiveness and attractiveness of an industry. The 5 Forces are as follows:

1. The availability of products which can substitute for the firm's products or services.

2. The power of suppliers over the firm.
3. The power of buyers over the firm.
4. The threat of new entrants to the industry.
5. The overall state of rivalry between incumbent firms in the industry will be examined following the value chain analysis as it is really an aggregate assessment of competitiveness based on both forms of analysis. The first 4 Forces and the value chain analyses provide context for an assessment of rivalry.

These forces must be considered separately to understand their individual effects on the industry. Once the individual effects are understood they must then be considered overall. Taken together, the 5 Forces provide an idea of the overall competition and attractiveness of the industry. In the case of the printing industry, competitive pressure is quite high at this time.

The KSFs will only be identified under each of the forces. A summary and discussion of all identified KSFs follows the 5 Forces and value chain analyses. This approach

2.2.1 5 Forces analysis: Substitutes (High Impact)

Any product that can fill the same customer need as that of an incumbent firm, but fills that need differently is a substitute. An example of a substitute might be: the substitution of a high-end photocopier instead of going to a print shop; an example of backward integration by the average firm that uses a printer to supply it. This is not a firm entering the printing market but it is a firm that has decided to stop purchasing services from the printing market. In this case the printer must take into account the effects of high quality photocopiers on her ability to compete. There are many possible substitutes for printing as shown in, Figure 2: Substitutes.

Figure 2: Substitutes

Substitutes (High Impact)
●(+) Vertical integration/ in-house printing
●(+) Television and radio advertisements
●(+) Other printed advertisement
●(+) Internet spam
●(+) E-business forms
●(+) Photocopiers
●(+) Off-the-shelf printed material
●(+) E-bills

2.2.1.1 Vertical integration

Vertical integration is the ability of businesses to handle their own printing needs. This is a substitute for the specialized printing services of a company like CI. This is becoming more prevalent as the quality of commercial off-the-shelf printers increases while prices decrease. The other factor is that software programs now exist that makes it easier to design many types of business forms or basic advertising without the need for specialist printing or design firms. This can be small-scale or large scale integration depending on the firm involved. The impact on incumbent firms will vary with the importance of each company that chooses this approach. This factor increases pressure on incumbent printing firms to remain relevant enough to spend money on their services rather than just handle printing needs internally. There is the potential for some firms to vertically integrate to the extent that they can begin offering printing services to customers; this will be discussed under the “new entrants” portion of the analysis.

2.2.1.2 Television and radio advertising

Television and radio advertising operate as substitutes for print advertising and act as a type of pressure on those using printed advertising media.

2.2.1.3 Other printed media

Other printed media includes magazines, flyers, newspaper advertisements or other similar media. They are not the same as, for instance, direct mail solicitation but they are a substitute for it.

2.2.1.4 Internet spam

Spam is prevalent despite efforts to reduce it. This includes any form of internet advertising such as spam, pop-ups, banner ads and the like. This is a very cheap method to reach vast amounts of people.

2.2.1.5 E-business forms

E-business forms are purely electronic forms. These are slightly different from in-house printing since they are often embedded in particular software applications. The need for paper documents is eliminated by using this medium.

2.2.1.6 Photocopiers

Photocopiers present another type of vertical integration but deserve special mention due to their widespread use and increasing quality and range of capabilities. Virtually no firm operates without photocopiers. The ability to reproduce printed material can also reduce the demand for it from printing firms.

2.2.1.7 Off-the-shelf printed material

Off-the-shelf printed material is anything that is printed but was not ordered from a printing firm. Examples might include receipt books, invoices, or order forms that can be purchased in most stationary or office supply stores.

2.2.1.8 E-Bills

E-bills are substitutes for printed bills and the envelopes they come in. This is increasing as customers become used to the format and businesses become more competent at using it.

2.2.1.9 Summary

These variables increase competitive pressure. If incumbent firms do not take them into account they will lose market share, and relevance. A general assessment is that substitutes have a high impact on competitive pressure in this industry and this should increase as technology allows for further vertical integration at all levels.

2.2.1.10 KSFs for substitutes

1. Cost

2.2.2 5 Forces analysis: Supplier Power (Medium Impact)

Supplier power is the force operating between suppliers and buyers. Printers normally need the basic supplies of ink and paper for their operations but also require those things generic to all businesses as well as other specialized products. In most cases a firm will buy from a supplier and sell to a different customer. In some cases a firm will both buy from and sell to the same firm(s). An example of this is in CI's relationship with a company called Supremex. Supremex manufactures envelopes. At times CI needs stock envelopes for CI customers and they order from Supremex. Supremex is a supplier in this case. At other times Supremex requires its envelopes to be printed for Supremex customers and they send stock envelopes to CI for printing. Supremex is a customer in this case. The question that must be answered is: How much pressure do suppliers exert in this market? Figure 3: Supplier Power shows the basic elements of the suppliers' power.

Figure 3: Supplier Power

Suppliers (Medium impact)
<ul style="list-style-type: none">• (-) Inputs to production are commodities• (+) Attraction and retention of labour• (+) Supplier industry risks• (+) Technology

2.2.2.1 Commodities

Commodities are products which are produced en masse and have little variation in price from supplier to supplier due to world, regional or national competitive pressure. Most types of paper and ink are commodities. This does not mean that differentiated ink or paper products are not produced or that they are never required but rather that this is the exception in commercial printing and not the rule. This fact operates to reduce competitive pressure on printers.

2.2.2.2 Labour

Labour is best described as “semi-skilled” for the printing industry. There is a blend of art and technical skill required for operations. This level of skill requires some training and experience in order to produce effective labourers. These types of people are not easy to find and can be difficult to keep on staff once hired; CI has seen rapid turnover in sales but only three of twenty in production over the past year. It can take from weeks to several months to take a new employee to a reasonable level of effectiveness depending on individual skill and past experience. Wages are average for this type of worker with very little profit sharing or other incentives being offered (Government of Canada, 2006)¹⁰. This makes it difficult to retain labour over the long-term as most firms are too small to allow for significant advancement. The market for labour is very tight at the moment with the jobless rate hovering just below 5 percent in British Columbia

¹⁰ In 2003, production workers were paid an average of \$38,000 annually while administrative workers were paid an average of \$54,000.

(Government of British Columbia, 2006).¹¹ The difficulty in attracting and retaining labour makes for a more competitive environment in the industry.

2.2.2.3 Industry risk

Industry risk has created a difficult situation for many suppliers. There are two types of risk affecting suppliers. The first is cyclicity in the paper market. Prices are going up right now with an unprecedented four increases to date in 2006.¹² The second major risk facing suppliers is exchange rate risk. The US\$ has lost much of its value over the past year. This has put pressure on Canadian pulp producers, who supply US paper producers, to increase prices. In turn, US paper producers raise their prices to cover the exchange. These price increases put a great deal of pressure on the printing industry as customers remain very price conscious. Printing firms that are able to react to these risks can gain cost advantages.

2.2.2.4 Technology

Technology is deeply embedded in the printing industry. On the other hand, R&D for printing is not typically part of the industry. Specialized firms conduct R&D for the printing industry and then industry firms use it. There is a requirement to keep abreast of technology to some extent but it is not an especially strong factor. Those who use better technology do gain an advantage over firms with lower technology however. One example of this is the ability to create printing plates directly from computer inputs (computer-to-plate or CtP). This is expensive technology but it also speeds up the printing process and reduces operator error. The question to answer is whether or not those advantages are sufficient to overcome the cost of upgrading. Each firm must answer that question itself based on its business model. New technology tends to become more affordable over time so it normally only creates advantages in the short-term.

¹¹ 4.9 percent in May 2006

¹² The overall percentage price increase to CI was not calculated as the increases have come from different suppliers.

Overall, technology does increase competitive pressure in the industry with each advance having a different level of impact.

2.2.2.5 Summary

The impact of suppliers is mixed. Some elements of supplier power are stronger than others. They do wield some power but it is not as significant as in some other industries. In particular ways, certain printers will be more at the mercy of their suppliers than others; such as those who require specialty inks or paper. Overall though, and largely because of the commodity based nature of most products, suppliers have medium impact.

2.2.2.6 KSFs for suppliers

1. Cost
2. Strong relationships or strong contracts

2.2.3 5 Forces analysis: Buyer Power (Very High Impact)

Buyers, or customers, have different characteristics and different abilities to influence competitive forces. Generally speaking, the more dependent the firm is on individual customers, the more competitive the industry becomes. Commercial printing firms are very susceptible to buyer power. Customers are normally other businesses which are very conscious of how they spend their money. In the printing industry there are strong competitive pressures from buyers as shown in Figure 4: Buyer Power.

Figure 4: Buyer Power

Customers (Very High Impact)
<ul style="list-style-type: none">• (+) Industry savvy• (+) Moderate buyer concentration• (+) Some buyers also customers• (+) Customers' prospective customer lists go out of date rapidly

Customers (Very High Impact)
<ul style="list-style-type: none"> •(+) Low switching costs •(+) Low search costs •(++) Canada Post may enter direct mail market

2.2.3.1 Industry savvy

Industry savvy refers to the fact that buyers are normally very knowledgeable. This is particularly true of direct mailers, other industry players and some consumer buyers. Most buyers are well aware of what a reasonable price is for a particular quality of product. In fact, direct mailers are known to compare notes and collaborate in order to keep prices as low as possible for all. The word gets around- one way or another- if a particular firm offers good value for the dollar. This increases competitive pressure very sharply. Good relationships with savvy customers facilitate customer retention and can result in new customers being referred.

2.2.3.2 Moderate buyer concentration

Moderate buyer concentration refers to the fact that there are not all that many huge purchasers of printing services out there. There are some but there are also very many others who are not so large. This factor was discussed in the introduction to this section. Larger customers expect to receive a better price for a higher quantity of business. Smaller customers can be less demanding due to the smaller quantities involved. There is some ability to make larger margins on smaller customer orders but this is offset somewhat by losing the economies of scale that come with larger orders. In short, this factor does increase competitive pressure but it could be worse than it is.

2.2.3.3 Some buyers are also customers

The fact that some buyers are also customers is something that has already been explained. This is another way that dependency can be increased. Interestingly enough, this fact may give printing firms more bargaining power but it also gives the supplier/buyer more power.

This factor increases competitive pressure if for no other reason than the two-way dependency is potentially complicated and will vary between supplier/buyer relationships. Contracts and/or relationships are very important as a way to maintain balance in this complex situation. It is more difficult to squeeze a customer/supplier when they are also a respected partner.

2.2.3.4 Customer acquisition lists date rapidly

Customer acquisition lists date rapidly in the direct mail segment particularly. Direct mail advertisers obtain customer lists and must act on these lists quickly before they are outdated. The need to move quickly forces everyone in their value chain to work quickly and accurately or profits are eroded. This creates immense competitive pressure to get each job done as quickly as possible. It should be noted that direct mail advertisers sometimes share their information about prospective customers in much the same way that they share information about printers. This level of collaboration also increases pressure on printers. Faster is better.

2.2.3.5 Low switching costs

Low switching costs means that it costs very little for customers to move their business between printing firms. Customers have few barriers to keep them tied to any one printer. There are many printers and they are all very competitive. This means that customers can move between them with relative ease. Contrast this with a high-tech company trying to switch to a new supplier of a specialty component with strict design parameters or proprietary information included. Printing companies have to work very hard to keep their customers since they do not get a break from high switching costs. Branding may prove useful to firms in making the switch to a lesser brand more uncomfortable. This factor keeps competition tight.

2.2.3.6 Low search costs

Low search costs mean that it is easy to find a printer. One need only check the local yellow-pages or search the internet to find dozens of printers for every need. This factor works in

combination with the low switching costs in the market to make it very easy for customers to move between printing companies. Brand can also help as people are drawn to strong brands when searching for goods or services. Homogeneous products, such as printed material, often do not lend themselves to branding however a firm that can create a brand will have an advantage. A brand is more likely to be successful when combined with a differentiated product or service. Competition is again enhanced because of this factor.

2.2.3.7 Canada Post

Canada Post is a monopoly which is backed by federal legislation. In a recent court decision Canada Post has been confirmed as the sole delivery provider for all mail leaving Canada. The impact on international direct mail advertisers has the potential to be dramatic as postage is much higher than the fee charged by a private international bulk mail distributor. The expected increase to the cost structure in this industry is expected to be the demise of many printing customers. The industry is still adjusting to this new ruling and a lobbying effort is underway¹³. Needless to say, printers will compete viciously for those international direct mail advertising firms which survive. Cost will become the all consuming focus of those customers remaining and most efforts to differentiate may need to be thrown in as “extras” to attract or retain market share.

2.2.3.8 Summary

In summary, buyer power is very strong in the printing industry. Printers must work very hard to keep costs down, ensure adequate quality all while working as quickly as possible. Relationship monitoring and maintenance are also key considerations for printers. Buyers have a very high impact on competitiveness.

¹³ At the time of writing this issue had reached the PMO. Government was signalling that it would likely support private business over Canada Post.

2.2.3.9 KSFs for buyers

1. Relationships
2. Cost
3. Speed
4. Brand

2.2.4 5 Forces analysis: New entrants (Very High Impact)

New entrants pose a threat as they disrupt the equilibrium of the existing industry.

Occasionally, an entrant has the ability to change the entire industry while most merely enter and exit with little impact. Nonetheless, the easier it is to enter the industry, the more competitive the incumbent firms must be in order to maintain their market share. If incumbent firms ignore the threat of new entrants then they can become complacent and those considering entry will find it easier to be successful. In the case of the printing industry there is a constant threat from new entrants. Factors to be considered are contained in Figure 5: New entrants

Figure 5: New entrants

New Entrants (Very High impact)	
•	(+) Market resembles perfect competition, many entries and exits
•	(+) Limited learning curve barriers
•	(+) Limited economies of scale
•	(+) Limited capital requirements
•	(-) Some economies of scope
•	(-) Some elements of integration can create barriers
•	(-) Some bundling of services
•	(-) Cooperation between some incumbent firms
•	(+) Market fragmentation

2.2.4.1 Perfect competition

Perfect competition arises when there are many competitors who enter and exit the market regularly. This causes fierce competition amongst industry firms who are forced to survive by lowering costs or finding ways to differentiate their products from the remainder of the industry. In the case of the printing market, there is a great deal of entry and exit. This increases competition for incumbent firms, as described above. The factors leading to this condition are addressed below. An indicator of perfect competition is industry concentration. The less concentrated the industry the more closely it approaches perfect competition. The printing industry is not very concentrated with 75 percent of firms having less than 30 employees (Government of Canada, 2002).

2.2.4.2 Learning curve

Learning curve barriers exist when productivity increases over time as employees learn how to use machinery and systems more effectively. When learning curves are significant, incumbent firms have an advantage over new firms since the incumbent's labour force is *ceteris paribus*, more efficient. The printing industry has limited learning curve barriers and thus competitive pressure is increased.

2.2.4.3 Economies of scale

Economies of scale exist when firms gain a productivity advantage by spreading their fixed costs over more units of production. This is not the case for most printing firms although extremely large firms, such as Quebecor, have been able to achieve economies of scale. The minimum efficient scale is not very large in the printing industry. One needs only a printing press and a small plant and a firm is created. Cost structures will vary but the fact remains that one need not produce millions of printed products daily to turn a profit. This means that incumbent firms are not protected from entrants simply because one must enter big or not at all.

2.2.4.4 Capital requirements

Capital requirements are quite low to enter this industry. One need not have exceptionally deep pockets to enter and be viable. The requirement to live off of entry capital until operations begin generating revenue is also limited. Operations can begin paying for themselves quite quickly if one has a successful business model.

2.2.4.5 Economies of scope

Economies of scope exist when more than one major function can be performed with the same machinery and employees. This leads to efficiency when the same inputs, such as paper and ink, can be used to create more than one type of product. Examples might be printing business forms, advertising flyers and envelopes all in the same factory rather than having that factory dedicated to producing only one type of product. The flexibility in the multi-role factory allows for switching between different types of job and this ensures a minimum of slack time waiting for specific types of job. There appear to be some economies of scope available in the printing industry. These economies are not a major barrier to entrants but they do provide an advantage to those printers who are able to create them. This factor slightly reduces competitive pressure amongst incumbent firms. Some customers are willing to pay more either, to outsource work outside of their own scope (other printers), or for a range of work done by a printer that they know and trust (standard customers). Speed and flexibility here can translate into higher returns, particularly when customers place “rush” orders.

2.2.4.6 Integration

Integration occurs where firms are able to use their resources to perform functions found in other elements of the value chain (vertical integration) or when firms are able to use their resources to perform similar functions in different value chains (horizontal integration). There is some integration in the printing industry. Some printers, such as Kirk (mentioned in the

introduction to this paper) can perform significant design functions as well as printing. This represents vertical integration as the firm contains these elements of the value chain within it. To the extent that the firm can add more profit to their bottom line by performing both functions internally than by outsourcing one of them, they make it more difficult for a new firm to enter the industry. Some firms have a strategy of integration. This does tend to reduce the threat of entry somewhat for those who are able to do this effectively. It also offers opportunities to create differentiated services depending on the functions that are integrated.

It is possible for firms that are currently purchasing their printing services to vertically integrate a printing function and become competitors. This is a difficult situation for incumbent printing firms because they not only lose a customer but they gain a new competitor. An example of this is Supremex, an envelope manufacturer, which has just created an envelope printing capability. At this time it is an example of a substitute in operation but it is possible that Supremex could become a competitor to other printers; a potential new entrant now exists.

2.2.4.7 Bundling

Bundling occurs where more than one product or service is offered simultaneously. This makes it difficult for the customer to distinguish between what is most valuable for them and often leads to more profit than would be obtained by selling each product individually. To the extent that this strategy is practiced effectively, it makes it more difficult for new firms to enter since they are forced to compete with bundled services of their own. Printers can offer some bundled services such as both printed materials and the envelopes to mail them in. Other examples might be offering design, printing, envelopes, delivery, and inventory management and the like to their customers. The potential for bundling somewhat reduces the threat of new entrants.

2.2.4.8 Market fragmentation

Market fragmentation refers to the fact that there are few extremely large firms. Market share is not very concentrated but instead is diffused between thousands of firms in Canada. Market concentration is low. The more fragmented that a market is the harder incumbent firms need to work to hold on to their fragment. Fragmentation is enhanced due to similar cost structures between incumbent firms. Market share cannot be increased simply by lowering prices or the competition will quickly copy the pricing and firms then live with the new lower prices in the market. Not enough market share can be captured before other firms copy the move to a lower price to enable the first mover to achieve a lasting advantage through scale effects. The result is an equilibrium that acts to maintain the status quo with regard to fragmentation.

2.2.4.9 Summary

There are some overlaps between concepts such as integration, bundling and economies of scope but they offer alternative views on potential barriers to entry by new firms. On the whole, while there are some factors here that reduce competitive pressure, they are heavily outweighed by those factors that indicate ease of entry. The threat of new entrants is significant and incumbent firms must remain very competitive or lose market share to newcomers.

2.2.4.10 KSFs for new entrants

1. Cost
2. Flexibility, integration and bundling can lead to differentiation
3. Speed
4. Relationships

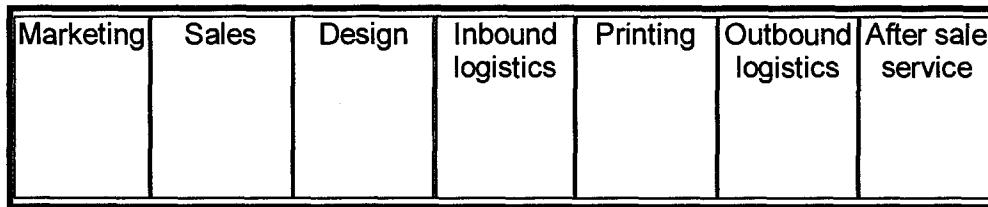
2.3 Value Chain Analysis

The value chain analysis focuses on the activities conducted within the market and the ways that these activities work together to create value for customers. To the extent that these activities are conducted efficiently and with the customers' needs in mind value is created. To the extent that they are not well conducted, value is reduced and thus the amount of profit that can be extracted is less. The printing industry in BC has several value chains. Three are examined in this paper. The first, the value chain for commercial printing, covers most of the salient aspects of the industry. The other two, direct mail advertising and consumer printing are contained in Appendix A and provide more understanding of these segments.

2.3.1 Commercial Printing

The commercial printing value chain explains the functions for a generic printing firm. This value chain actually becomes part of other value chains; those of customers and suppliers. Depending on which market segment is being examined, particular parts of this value chain become more relevant or less relevant to the overall success or failure of the firm. Some printing firms will have more value chain elements while others have less. The value chain at Figure 6 is a representation of an average set of functions performed by a printing firm. CI operates within this value chain but, in turn, CI fits into other firms' and industries' value chains with it.

Figure 6: Commercial Printing Value Chain



Adapted from Bukszar (2006)

2.3.1.1 Marketing

Marketing is defined here as all of the activities related to customer acquisition and retention. Acquisition of customers is difficult in this market due to many of the factors discussed in the 5 Forces analysis above. This makes a strong marketing function important in order to identify and take advantage of the often fleeting opportunities in this industry. It is typically performed by a combination of sales staff who generate their own leads, office staff who take calls from new prospective customers and advertising or other promotional activities; if performed. Retention of customers is normally carried out by the same people who are involved with acquisition but depending on how a particular firm is organized, the entire organization can become involved with customer retention to some extent. The aim in customer retention is to develop relationships and then maintain them as this is one way to resist competition. Marketing departments are normally only found in the largest of firms with most small or medium sized firms relying mainly on their sales and customer service staff. Marketers must be cognizant of the type of customer they are targeting and consider the relationships that will be affected by acquiring them. Recognizable brands offer a buffer from low switching and search costs. The 5 Forces analysis showed how critical relationships between suppliers, buyers and even incumbent firms can be.

2.3.1.2 Sales

Sales encompass all activities required to obtain and process an order from a customer. It involves both sales staff who tend to operate in the field and customer service staff who operate from the office. There is a need to ensure that all of those involved with sales have a good understanding of design, costs and manufacturing capabilities. In the case of new orders a salesperson normally works with the customer to ensure that their needs are met. In the case of repeat orders there is much less need for this amount of tailoring. A process to take an order from receipt through to finished product is another basic aspect of sales. Ideally, the role of sales will be clearly understood within the context of the firm's overall strategy. In many firms the sales staff also represents the marketing department. In such a competitive market, firms live and die by the quality of their sales staff.

2.3.1.3 Design

Design is a creative process. It can be conducted either in-house or by a specialty design firm or it can be carried out by the customer. If the customer is able to design a printed product to meet their needs then they do so and pass the design to the print shop. If they are unable to design it then they normally work with a specialty design firm although some print shops have in-house designers. Normally, print shops do not contain a significant in-house design capability due to the wide availability of design firms. This is one segment of the value chain that might allow for print shops to increase their value to the customer as the design itself must be of high enough quality to meet customer needs (or the rest of the process becomes irrelevant). At the very least, each print shop has someone who is able to translate a received design into a format compatible with the printing plates used by the printer. Quality decisions must be made as these affect the raw materials required and the printing process to be used. This is an example of why the sales staff must understand the print shop's capabilities before making promises.

2.3.1.4 Inbound Logistics

Inbound logistics is not the most significant element of the value chain in the printing industry. The concept of just-in-time inventory is not particularly relevant due to the nature of the raw materials required for printing. Ink and paper are the two most significant items and neither of them is especially difficult to retain in inventory. In some cases the inventory requirements for storage of paper can become onerous but it is not difficult to forecast requirements in sufficient time to ensure that more can be ordered. There are some advantages to be gained by close management of the inbound logistics chain. Small firms stand to gain by keeping the space required for inventory to a minimum. Since the costs of plant and equipment are quite high, this allows for a more efficient use of space for manufacturing. Large firms stand to gain for similar reasons but inventory management needs to be carefully tied to inbound logistics when production is done at large quantities. It is also important to retain close relationships with suppliers, as shown in the 5 Forces analysis above.

In the printing industry inventory management is important. If properly managed it allows for flexibility, rapid execution and can even offer a method to manage certain financial risks. Flexibility is enhanced by having enough raw materials on hand to handle a variety of different jobs. Odd jobs can also be managed by using left over inventory thus reducing waste. Rapid execution is facilitated by not needing to engage the full inbound logistics chain for each job.

2.3.1.5 Printing

Printing includes all activities from receipt of a customer order to the point at which it is ready for shipping or pick-up. The first step is to prepare printing plates. This is being performed more frequently through the use of software and information technology than through the manual creation of printing plates. The name for this technology is “Computer-to-plate” (CtP) and it is

saving time and money for printers and their customers. If CtP technology is being used then those involved in the actual printing process have a simple task to prepare plates. The next step is to set up the printing machinery. This includes selecting the correct inks and paper combination. Once the machinery is set up there is normally a series of test runs conducted. This is normally a fairly fast process unless there are unforeseen problems encountered. Once the test runs are acceptable, the printing presses are operated until the job is complete. The printed materials are then batched up for shipment. There is some automation in all steps of this process such as batching up materials for shipment automatically as they come off the presses. There is a need for semi-skilled labour to perform these functions as the machinery is quite technical in nature. Despite increasing automation and technological improvements like CtP, there is still a need for high quality semi-skilled labour.

2.3.1.6 Outbound logistics

Outbound logistics involves all activities from the time that the print job is completed and batched up to the point that it is received by the customer. Depending on the size of the job this can be an important step in the value chain. Printed paper is bulky, heavy and difficult to ship over long distances cheaply. This helps explain why the printing market is so fragmented. It costs a lot of money to ship printed material across continents. Thus smaller printing firms can produce materials locally instead of large firms producing everything centrally and then shipping it. Local firms have three approaches to outbound logistics and tend to use each of them. The first is to use an in-house delivery vehicle/fleet. Vehicles are obtained by the firm and are used for deliveries; this increases flexibility and potentially speeds up the process but comes with a price. The second is to have customers pick up their own orders. This method works well for small orders or for customers with specific requirements. The final approach is to use a courier or other third-party service to deliver the finished product. This is a common approach for out of town customers or for customers with extremely fast delivery requirements. It is important to be

accurate at this point or delays, confusion and customer dissatisfaction can result. A late or inaccurate delivery can undo all of the efforts embedded in earlier parts of the value chain.

2.3.1.7 After sales service

After sales service is normally a follow up call or visit to the customer after the finished material has been received. The purpose of this step is to ensure that customers are satisfied and to correct any identified problems. Ideally, it is the after sales service call that identifies problems before the customer even needs to lodge a complaint, or worse quietly finds another printing firm to meet its needs. This is an important element of customer retention; the more well developed the after sales service plan, the better the chances of increasing customer lifetime value. Sales staff and customer service staff are both involved in this process. When problems are encountered then a particular solution is developed. This might involve anything from completely re-doing the order to providing a discount on the next order and the range of solutions is virtually limitless. If no problems are encountered then the role of after sales service is to help generate future orders.

2.3.1.8 Commercial printing summary

The generic commercial printing value chain has identified not less than eight primary processes in operation. There are also processes operating across the eight primary steps. Examples are HR, IT and finance, amongst others. These functions have been broken down into the eight primary processes where they were most salient.

2.4 Key Success Factors

A summary of KSFs from the 5 Forces and value chain analyses is below at Figure 7:
Summary of KSFs.

Figure 7: Summary of KSFs

Printing Industry KSFs	
•	Cost
•	Speed
•	Flexibility
•	Quality
•	Relationships and contracts
•	Marketing
•	Integration and bundling

The fact that virtually all of these KSFs were confirmed by two types of analysis is an indication of reliability. The remainder of this paper will use these KSFs both to develop and to assess strategic alternatives. A discussion of these KSFs follows.

2.4.1 Cost

Costs must be kept low. In general, cost is **the basis** for competition in this industry. Firms that can deliver adequate quality products and services, at lower prices, will be successful. The trick, of course, is to be able to turn a profit at such low prices. Every possible advantage must be put into play to cut costs while increasing volumes. This is the key to success for cost-based competition. Customers are willing to pay more for certain things such as speed, particular processes/products or bundled services but this is only relative to the industry. No matter how much differentiation can be added, there are very real limits on what a customer is willing to pay.

2.4.2 Speed

Speed is expected of every printer, to some extent. Customers are not willing to wait overly long for their orders. There is an understanding that time is necessary to get a print job done but there are limits. Certain customers rely on speedy work and are willing to pay more for it. This provides an opportunity for differentiation if a firm can capitalize on it. The key is to target customers that require speedy service and concentrate on them. This will create additional

pressure to perform but a premium can be charged. The risk is that competitors purchase the technology and start producing at the same (or better) speed for a lower price.

Direct mail advertising firms are normally extremely price conscious. On the other hand, they are sometimes willing to pay more for speedy service if it will gain them an advantage in reaching customers before mailing lists go out of date. On the whole there is opportunity to find direct mail advertisers who will pay more for speed. Almost all customers will value speedy service over cost at some point depending on the situation; the challenge is to take advantage of these fleeting opportunities when they arise.

2.4.3 Flexibility

Flexibility is the ability to produce different types of products. This is something that can lead to economies of scope and the advantages that come from it. These advantages can be elusive but if the economies of scope are coupled with other customer needs such as speed, then further differentiation may be possible. In the printing industry this allows for one firm to compete in several market segments simultaneously. Risk can be reduced as a result. Growth can be facilitated as well. Unfortunately, there is also risk that other competitors in these market segments can out-compete the newcomer.

2.4.4 Quality

Product quality is something that often needs to be “given away” as part of every offering in this cost oriented industry; even in direct mail or consumer printing. There is a minimum level of quality, which is actually quite high, that must be present in all products. Quality products need to be produced at the lowest possible price; this is the nature of the printing industry. There are some products or services that can be of high enough quality to command a higher price; such as design. Service quality is something that might lead to advantages. In an industry where there can be little variety in product quality, service quality may allow for differentiation. Bundled

services can also allow for higher quality offerings that cannot be matched by printed materials alone.

2.4.5 Relationships and Contracts

Relationships and solid contracts with suppliers, customers and other rivals are important. Good relationships with suppliers can allow for somewhat lower prices or faster reaction times. Customer relationships are vital in order to reduce churn and increase profitability. Prices tend to reach equilibrium between competitors due to similar cost structures in the industry. The equilibrium reinforces relationships within an industry that has traditionally competed on cost.

2.4.6 Marketing

Marketing seems like a given. In truth though, this can be a problem for printers, most of which are small and have limited resources. Clearly identifying customer needs and market segments suitable for growth allows for firms to better create products and services to meet those needs. Many firms do not take a systematic approach to marketing and stand to be less competitive because of it. The other key to marketing success is brand development. To the extent that a firm can put forth a positive brand image then it can be insulated somewhat from new entrants, and rivals who do not have the advantages of a positive brand to draw upon. This is a defensive advantage in that it makes it more difficult for a competitor to steal market share. It is difficult to value a brand's equity and firms must be careful not to expend so many resources that costs are increased beyond the brand's ability to add value. In this mostly business-to-business market, brand can also be something that builds new customers and allows for easier entry into new market segments. This is an offensive advantage in that it allows for growth in the market at the expense of competitors. However, brands can also limit entry if that segment does not see a connection with the existing brand. Firms that can nurture their brand well will have both defensive and offensive advantages over those who don't.

2.4.7 Integration and bundling

Integration and bundling each increase the potential of differentiated strategies. Firms that can perform more than one function for a customer or offer products with additional features may be able to charge a premium. Costs and efficiency are important to integration decisions but if the firm can meet more multiple customer needs in-house then the customer may be willing to pay more for the simplicity. Customer relationships can also be strengthened due to increased contact. However, integrated or bundled functions must be performed efficiently or specialist firms will gain an advantage.

2.4.8 Summary

The incumbent firms have a difficult job in the printing industry. They have to work very hard to keep their market share and even harder to expand it. There is room for differentiated strategies but the cost based approach is king. Differentiated strategies and possible higher profit margins are relative to the market and in this case the higher profit margins are not exceptionally high. In some cases differentiation is the only way to grow or even maintain market share in the face of cost based competition. Costs are the single most important factor to consider in any strategy; even for those with differentiated offerings.

2.5 Two Strategies in Use

The fragmented nature of the printing market leaves room for both cost based and differentiated strategies. There are many different possibilities. Premier Envelope uses a cost-based strategy. Kirk Integrated Marketing uses a differentiated strategy. These firms are representative of each type of strategic alternative. The comparison of these firms against the industry KSFs will allow for a concrete discussion of some threats and opportunities facing CI. CI is not faced with one single firm that competes in each of CI's markets. Premier competes in

the envelope printing segment while Kirk competes in the direct mail advertising materials segment.

2.5.1 Cost-based strategy: Premier Envelope

Premier envelope is a regional supplier of envelopes in several segments. Direct marketing is their niche but they also provide to other printing and related industry firms. They are involved in the manufacturing and printing of envelopes. In relation to CI, they represent a supplier, a customer and a rival! The key to Premier's strategy is a focus on keeping costs down through the use of technology and economies of scale. They are able to achieve good economies of scale in manufacturing but they are an example of a firm that has not done a particularly good job of integrating the envelope printing function into their business. They have a limited capability based around one envelope printing press and are forced to use other printing companies to fill their orders. Unfortunately, Premier is a privately owned company and internal information was not available.¹⁴

2.5.2 Differentiated strategy: Kirk Integrated Marketing Solutions

Kirk offers a wide range of services, including printing, to the direct mail marketing segment. They focus on the domestic market (which is not under threat, at this time, from Canada Post) but also service the international market (which is under threat from Canada Post). They offer everything from design, to research, to database to printing services. Kirk is the example of a vertically and horizontally integrated firm that can offer bundled services. Direct mail advertisers can have all of their needs met with one stop. This allows them to differentiate themselves from competitors. They have the ability to offer qualitative differences from their competitors. This is worth something to their customers who otherwise might be able to handle each function independently for less cost than by going to Kirk.

¹⁴ Information on Premier Envelope was gathered through its website (<http://www.premierenvelope.com>) and interviews with Barry Sikora and Vic Benetton (Sales manager at CI).

Kirk uses its expertise in marketing not only to service customers but also to compete directly in its market. They have a good understanding of their customers and the market segments that they operate in. In their 50 years of operation they have been able to establish brand recognition and a fairly solid customer base. Unfortunately, Kirk is a private company and financial documents were unavailable.¹⁵ An indication of their success was their extensive upgrade, in 2003, of plant and equipment.

2.5.3 Comparison to KSFs

The KSFs are weighted based on the judgement of the author with some input by Barry Sikora. In addition, each company is assessed against these KSFs on a score ranging from 1-10. Higher scores suggest a greater level of success by that firm. This same scale will be used when assessing the strategies available to CI. KSFs are highlighted to indicate whether they are more applicable to either a cost-based or differentiated strategy.

Figure 8: KSF Comparison Matrix

KSF	Weight	Premier	Kirk	CI
Cost*	10	8	5	7
Speed^	6	7	8	10
Relationships & contracts	6	8	9	8
Marketing	5	6	10	2
Quality^	5	7	8	8
Flexibility^	4	5	8	10
Integration & bundling^	4	2	10	5
Total:		263	314	288

Legend: * = cost-based, ^ = differentiated, no highlights represent KSFs of general application.

The comparison shows how both Premier and Kirk are able to be competitive despite the use of different strategies. Premier has room to improve but as they are the only significant

¹⁵ Information on Kirk was gathered from its website (<http://www.kirkmarketing.com>) and interviews with Barry Sikora and Vic Benetton

competition for CI, in the envelope market at this time, they remain as a benchmark. All things being equal, based on these benchmarks, the differentiated strategy followed by Kirk is superior to either Premier or CI's status quo approach.

2.6 Opportunities and threats

Opportunities are available where the external analysis identifies something that could lead to more success for a firm if they could take advantage of it. Threats arise from the external analysis if they offer challenges to a firm. Threats can reduce profit, market share or even eliminate a firm if not taken into account. The comparison matrix at Figure 8: KSF Comparison Matrix clearly identifies some threats and opportunities that CI must be aware of.

Opportunities for CI lie in the KSFs of speed and flexibility. Assuming that CI can build on their strengths in these areas, they should be able to compete effectively. There will need to be a conscious decision to use either a cost based or differentiated strategy in order to take advantage of these opportunities however. Other opportunities exist in the market beyond those presented by Premier and Kirk. Specific opportunities for CI include:

1. Use of flexibility to capture new customers/market segments or to offer new products to existing customers
2. Use of speed to charge a premium

Threats exist in the areas of marketing and integration/bundling. The market rewards these abilities and CI is not scoring well on them. Further discussion in Chapter 3 will look more closely at these problems. Specific threats to CI include:

1. Loss of market share to firms that are able to integrate and bundle services
2. Loss of market share to those with strong, or even moderate marketing ability

2.7 Strategic Alternatives

Considering the analysis to this point, either approach should be appealing to CI. Since the firm is stuck between strategies at the moment, it can move more easily to one end or the other than if it already had a clear strategic focus. CI can move to either a cost-based or differentiated strategy. It cannot stay in its current position caught between the two. This section will outline one of each type of strategic alternative.

2.7.1 Cost-Based Alternative

2.7.1.1 Strategic Intent

The intention of CI with this strategy is to expand its dominant position in the envelope printing market in BC and in other regions as well. High quantities at maximum efficiency are the keys to success. Customers are to be attracted by the amazing prices being offered by CI. This will also keep competitors at bay. CI must stay ahead of the competition's efforts to provide lower cost solutions. Growth will come from seizing market share from other low-cost producers and the battle will be won by the firm that is most efficient. CI must not be tempted into going after customers with needs that fall outside the efficient range of products created. Revenues will likely grow much more quickly than profits but this is acceptable as long as both continue to grow.

2.7.1.2 Outline Plan

The general outline of this strategy is simple. All activities not directly related to the printing of envelopes are to be reviewed. If they do not lead to greater efficiency then they are to be stopped. All machinery that does not aid in the printing of envelopes is to be disposed of. If new machinery is needed to make up for higher quantities of envelopes then it is to be purchased. Growth will come from a relentless slow penetration strategy. Marketing must execute this slow penetration strategy deliberately while keeping costs low. Production staff must look for

efficiencies wherever they can be found and the team must be built around the core competency of envelope printing. Expansion of production should be anticipated. Customer service staff will be pressed to support marketing and sales with systems designed to make ordering easy and quick. Control will remain very centralized and all important decisions will be made at the top so as to ensure disciplined adherence to the plan.

2.7.1.3 Main Effort

To eliminate doubt, the main effort is to reduce costs by focussing on the efficient printing of envelopes.

2.7.1.4 End State (Projecting forward in time)

In 3 years, CI has one service offering, envelope printing. The BC market is completely dominated and other regions, such as Alberta and possibly the Pacific Northwest have been penetrated. Over the past three years, management has become fully cognizant of all factors affecting costs and has implemented processes to minimize them. Plant and machinery are operating well and a decision is pending about the need to expand. Revenues have grown by 30 percent from YTD 2006 with expected growth of an additional 15-20 percent per year. Barry is considering how to hand over the company to his daughter who has been exposed to all facets of the business in a conscious effort to prepare her.

2.7.1.5 Conclusion

The cost-based strategic alternative is workable.

2.7.2 Differentiated Alternative

2.7.2.1 Strategic intent

The intention of CI is to focus on higher margin customers who value speed enough to pay a premium for it. It is more than acceptable to retain lower margin customers but they are not

the priority. Several different segments will be targeted based on flexibility and economies of scope. This will allow success in areas currently being under-serviced by competition that is less responsive; in fact CI may be viewed as a partner for those firms that cannot meet certain of their customers' needs. CI will become nimble in the market, identifying and seizing opportunities when they present themselves. The best efforts of all to find innovative new ways to meet customer needs will be expected; possibly to include integration or bundling of services. Profits should expand along with or possibly faster than revenues as CI gets better at focussing on higher margin customers.

2.7.2.2 Outline plan

CI will take immediate steps to improve its marketing functions. Identifying profitable customers and meeting their needs quickly is the key to success. Processes will be built to increase speed and facilitate flexibility. Departments will be developed to the point that they understand each others' needs and work together to the success of all. Marketing and sales will spearhead growth, through a slow penetration strategy, supported by an increased role for customer service. Production will focus on quick reaction to orders and the ability to print many different types of products. Administrative functions will be improved so as to support all employees. Costs cannot be ignored and management will develop better reports so as to understand what is happening inside of the firm.

2.7.2.3 Main Effort

CI's main effort is to develop higher margin accounts.

2.7.2.4 End State (Projecting forward in time)

In 3 years CI will have increased net profit by not less than 50 percent. New customers will have been attracted to the ability to rapidly meet their needs and other printing firms see CI as their solution to short-notice orders from customers. CI has developed a solid brand that is

recognized in the regional market as synonymous with high speed and flexibility. The firm is considering the next steps for horizontal or vertical integration based on proven strengths as a market leader.

2.7.2.5 Conclusion

A differentiated strategy is workable for CI.

2.7.3 Comparison of Projected Outcomes

The two strategies are workable. A comparison is necessary to allow for a full understanding prior to assessing them against the decision criteria. Some basic elements for comparison are against costs and benefits of each plan. The strategies have been applied under three conditions. The “best” condition represents the most successful outcome that is reasonable. The “average” condition represents what should be expected if the strategy is adequately successful. The “worst” condition represents what might be expected with the least successful outcome that is reasonable.

Figure 9: Strategy Projections

Scenarios	Costs	Revenue	Profit Margin	EBIT	+/-	+/- (%)
Cost-based						
Best	-15%	20%	0%	2,122,650	1,668,887	368%
Average	-10%	0%	-10%	814,192	360,430	79%
Worst	-5%	-20%	-20%	(250,667)	(704,429)	-155%
Differentiated						
Best	-5%	20%	15%	1,922,517	1,468,755	324%
Average	0%	10%	10%	1,045,038	591,275	130%
Worst	5%	-10%	5%	(281,355)	(735,118)	-162%
Status quo						
Best	-5%	20%	10%	1,838,929	1,385,167	305%
Average	0%	0%	0%	453,762	-	0%
Worst	10%	-40%	-10%	(1,783,999)	(2,237,761)	-493%
Actual YTD 2006	\$ 1,878,732	\$ 2,067,800	Unk	\$ 189,068		
Projected 2006	\$ 4,508,957	\$ 4,962,719	Unk	\$ 453,762		
Notes:						
1. Scenarios based on a 3-year timeline ending in December 2009.						
2. All figures in unadjusted 2006 dollars.						
3. Projected 2006 figures based on 5 month average of YTD 2006.						
4. All scenario projections based on projected 2006 figures.						

The projections in Figure 9: Strategy Projections must be explained. Costs are based on 2006 cost projections. In most scenarios costs either remain steady or decline somewhat by the percentage indicated under the “costs” column. Revenues are calculated in the same fashion as costs. Profit margin refers to the increased or decreased profit that could be expected based on the types of customers served. It is a percentage added to the gross profit of revenue less costs. The result is the projected EBIT for the end of fiscal year 2009. It is compared to the projected EBIT for 2006 to show how much each scenario increases or decreases the bottom line. These projections are highly subjective in nature. The assumptions behind each of the scenario projections are stated below.

The cost-based projections are aimed at cost reduction. This is assumed to be successful, to some degree, in each scenario as displayed under the “cost” column. Revenues are assumed to have potential problems due to the loss of all commercial printing in favour envelope printing

alone. Profit margins are expected to decrease for similar reasons. There will be a loss of some higher margin customers with the loss of commercial printing. These assumptions give rise to the figures that are projected for the end of fiscal year 2009.

Economies of scale are reflected in all aspects of the cost based projections. To successfully implement this strategic alternative there is a need to expand the average quantity produced per order. This is possible by targeting customers with quantity needs that are as close as possible to the maximum efficient capacity per press. In this way revenues are increased, costs per sheet are reduced and profit margins should remain stable. If a firm could expand its capacity in line with customer orders then it would see maximum benefit from this strategy as revenues and profits would continue to climb with expansion. The trick is to produce this effect in practice; something that requires a well orchestrated and integrated marketing and production effort.

The differentiation based projections are aimed at increasing the profit margin. Costs are anticipated to remain more or less neutral although in the extreme scenarios there are changes. Revenues are generally expected to increase. This is because CI would not be losing the half of its business currently coming from commercial printing. It may lose some customers but it should gain more than it loses in most cases thus the upside in the average or best conditions. The worst condition sees a drop in revenues however. Profit margins are expected to increase even under the worst condition as this is the basis of the strategy. These assumptions give rise to the figures that are projected for the end of fiscal year 2009.

The status quo projections are relatively simple. The average scenario is simply a carry on from the projected 2006 results. The worst scenario is tied to a slight increase in costs based on the weaknesses in management tools. Revenues are down sharply due to Canada Post's activities. Profit margins are also down due to a lack of focus on higher margin customers. This

is the worst outcome for CI's currently muddled strategy. The best outcome is based on improved costs and revenues. Perhaps Canada Post is unsuccessful and maybe costs are reduced based on either external or internal factors. Profit margins are higher as well. In every case, the status quo is worse than either strategic alternative under the same conditions.

There is little to separate the two strategic alternatives in either the best or worst conditions. There does appear to be a noticeable difference between the strategies under the average condition though. The differentiated strategy has the best outcome. Judging on these criteria alone, the differentiated strategy would be chosen. It must be said that when revenues are allowed to increase to higher levels under the cost-based scenarios, there is a much higher EBIT than under the differentiated scenarios. There is little to recommend the status quo in any case.

2.7.4 Comparison to KSFs

The strategic alternatives must be compared to the KSFs identified earlier. No matter how the internal aspects of CI relate to a strategic alternative, if it does not work externally then it is doomed. The same framework used to examine Premier and Kirk will be used to examine CI's options.

Figure 10: Strategic Alternatives and KSFs

KSF	Weight	Cost-based	Differentiated	Status Quo
Cost*	10	10	7	7
Speed^	6	8	10	10
Relationships & contracts	6	7	9	8
Marketing	5	8	10	2
Quality^	5	7	8	8
Flexibility^	4	4	10	10
Integration & bundling^	4	3	10	5
Total:		293	354	288

The cost-based strategy does well exactly where it is expected to. Costs factors are well managed and score highly. Speed is reduced in favour of volume and the more predictable the better to maximize efficiency. Relationships suffer as non-envelope customers are lost and envelope market share is seized from competitors. Marketing improves as this is the only way to achieve volumes. Quality remains relatively stable but could possibly drop slightly depending on how this is measured. Flexibility drops sharply as non-envelope printing presses are taken out of the picture; likewise with integration and bundling, which are not relevant to this approach. This is a marginally better option than the status quo.

The differentiated strategy rates highly in speed and flexibility, as does the status quo. These are the cornerstones of this strategic alternative and they must remain at a high level to ensure success. Marketing improves dramatically due to the need to focus on expansion into new market segments and to rapidly take advantage of opportunities. Integration and bundling also improve as the ability to produce more products and to innovate improves. The majority of other factors remain relatively stable as compared to the status quo. There is no dramatic increase of costs or loss of relationships. The significant improvements combined with little loss in other areas make this strategy strong when compared to the industry KSFs.

2.7.5 Recommended Strategic Alternative

Each of the two alternatives is workable for CI. However, the differentiated strategy significantly outperforms; both in projected success and when compared to KSFs.

2.8 Conclusion

The external analysis has shown that the printing industry is very competitive. New entrants would not find it particularly attractive. That being said, the market is very fragmented and there are ways to compete and succeed. The 5 Forces and value chain analyses showed some of the threats and opportunities present in the market. This concludes the examination of the industry external to CI. It is now time to look into CI and observe some of its strengths and weaknesses in the face of the printing industry.

3 INTERNAL ANALYSIS

3.1 Internal Analysis: Diamond-E analysis

The Diamond-E analysis (Crossan et al, 2004) is a method of analysing the internal workings of an organization. It looks at four variables in operation within the organization. The first variable is management preferences. The second is firm resources. The third is systems, structure and culture. Finally, the organization's strategy is assessed. The results of this analysis provide a good understanding of current strengths and weaknesses within a company while offering an idea of what changes could be made in order to increase strengths/decrease weaknesses. This will lead to an understanding of any gaps that need to be closed in the implementation of a differentiated strategy. Decision criteria will also emerge by which to assess the strategic alternatives available.

This chapter begins with the Diamond-E analysis. It was generated from a combination of interviews, questionnaires, and CI internal documents. Once the analysis is complete, it is applied to the strategic alternatives from Chapter 2. The internal analysis of CI is somewhat shorter than the external analysis of the printing industry. This is because CI is a much more finite entity than the entire industry; not to mention that data was much easier to gather due to the access granted by Barry.

3.1.1 Diamond-E analysis: Management preferences

Any discussion of management preferences at CI has to begin with a discussion of Barry. Barry is the vital force within CI and while the other managers have some autonomy they very much take their lead from him. This is a common situation for many small entrepreneurial firms.

The risk of this approach is that mistakes can be made or opportunities lost if the entrepreneur misses important information that subordinates have or fails to seek or accept good advice. The advantage of this approach is quick reaction and, to the extent that the entrepreneur is skilled and experienced enough, better outcomes may result than by allowing less experienced staff too much autonomy.

Management preferences for Barry are outlined in Table 1: Management Preferences, below.

Table 1: Management Preferences

<ul style="list-style-type: none"> ● Entrepreneurial ● Moderate risk tolerance (retirement is coming) ● Leadership role in market ● HR viewed as very important ● Maintenance of relationships ● Sales orientation ● High control 	<ul style="list-style-type: none"> ● Financial independence ● Technology is important ● Firm profits are viewed as individual income ● Family linked to business ● Bias for action ● Need to know all activities ongoing within CI ● Desire for growth
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3.1.1.1 Entrepreneurial

Barry is very entrepreneurial. He has a particular worldview that values competition, personal drive, freedom of action and individual achievement. He expects the others within CI to accept these values, at least to some degree. These values have permeated the culture of the firm. This approach provides the advantage of a competitive spirit that drives CI to perform. A disadvantage is that it sacrifices the long-term view for a short-term focus by CI since this is where the fight is today.

3.1.1.2 Moderate Risk Tolerance

Barry is comfortable with risk; as all entrepreneurs must be. On the other hand, Barry is interested in retirement and is not prepared to take extreme chances with the future of CI. This is a relative issue as much of his personal wealth is at risk since it is invested with CI. This is manifested in very low leverage and some concern around marketing and expenses generally. He is re-investing most retained earnings into CI but this is with a view to getting more back later when it is time to retire. His preference is to leave CI as a going concern for his family once he does retire. Risk is not formally measured in favour of a more gut-feel approach based on experience.

3.1.1.3 Leadership Role in Market

Barry plays a leadership role outside of CI due to his reputation in the industry and his personal relationships. This is most clearly displayed in his leadership role in the lobby group called the Canadian International Mailers' Association (CIMA) in the fight against Canada Post. He does not contribute much in the way of concrete resources but he does spend a great deal of energy communicating and mobilizing resistance. This leadership could possibly be parlayed into something for Barry post-CI but for now it assists in the maintenance of relationships and provides reputational capital for CI.

Barry's leadership external to CI has the potential to interfere with other internal activities. His involvement with sales and management of some CI functions could suffer if the correct balance is not struck. To date, he has been able to maintain a balance but one person only has so much energy and he must take care to manage his time carefully.

3.1.1.4 HR Viewed as Important

Barry sees HR as very important to the success of CI. He understands that it is extremely difficult to find quality employees with the right skills. He also understands that it can be just as

difficult to retain these employees. Compensation is seen as important but the work environment is what Barry sees as the key benefit for employees. Compensation is something that can be found in any job so Barry keeps it competitive but a positive place to work is a rare thing. Barry spends a great deal of time ensuring that his managers and employees remain somewhere between content and completely satisfied. This is not always completely successful but the idea is practiced as much as possible.

3.1.1.5 Maintenance of Relationships

Barry sees relationships with customers and suppliers as critical to CI's success. Due to his long record in the industry, Barry has developed a good reputation and strong personal relationships. These relationships often allow him to negotiate better terms for business transactions than some competitor firms are able to. This is an advantage that Barry works hard to retain. It does take work though as people turn-over and circumstances are constantly shifting in this industry. Barry understands the need to sometimes take a loss in one area to make a gain in another. This give and take approach provides a buffer against some risks and types of competition.

3.1.1.6 Sales Orientation

Barry started as a salesman and sales are his forte. In his work as owner and general manager of CI, he brings in a bias toward sales. This is the cut and thrust of individual sales and accounts rather than the development and execution of a marketing strategy. He has experience managing a factory, and is competent, but this is not his natural talent. Barry's focus on sales and customer relationships is good in terms of getting it done. However, this same focus suffers from the lack of an overall strategy or plan to guide the tactical sales effort. The remainder of the company does not suffer overmuch due to this focus as he pays attention to problems and uses his managers well to provide him with the necessary expertise.

3.1.1.7 High Control

Barry is an entrepreneur. He is the star of the show and rightly so. It is his money on the line and his experience and talent that allow CI to succeed. Along with these characteristics comes a high need for control. Managers are granted some autonomy but it is limited and Barry is sure to look into what everyone is doing to ensure that it meets with his approval. This tendency to micro-management is balanced by putting in some democratic processes. One key process that has been adopted is called “Q-Base”. This is similar to ISO standards and includes standards for management. These standards dilute some of Barry’s desire for control and force him to step back at times. Barry does retain the right of veto over anything that is brought to him though. In a firm of 30 employees, Barry has a small enough span of control to allow this approach with only minor problems. If CI expands too much though, this approach could become problematic. It is also a problem in terms of succession. CI cannot be handed over to a successor unless management is able to operate without the need to rely on Barry for decisions.

High levels of centralized control may also reduce innovation within the company. Generally speaking, the less centralized the organization, the higher the potential for innovation as individuals are allowed the freedom to innovate. Decentralized control is not a sufficient condition to ensure innovation but it may be a necessary condition. This is particularly important when considering a differentiated strategy that will require rapid reaction to the market and innovative methods of filling customer needs.

3.1.1.8 Financial Independence

Barry does not want to be saddled with outside control over CI finances. His priority is to eliminate all externally sourced long-term debt such as bank loans. There are loans from Barry to CI but these interest payments are made to Barry himself and are viewed as something of an annuity. Moreover, the private loans from Barry are completely under his control. He has no

interest in going public. These observations fit well with his risk tolerance and his need for control.

3.1.1.9 Technology

Barry views technology as an important element of CI's success. CtP printing processes and new IT systems have been purchased in an effort to increase competitiveness. There is no technology or IT plan but the acceptance of technology is something that could allow CI to develop advantages.

3.1.1.10 CI Profits

Profits are seen as an extension of personal income for Barry. He has been carefully reinvesting profits rather than taking them out of the company. This has been done to improve the future earnings potential of the company while Barry expenses his total compensation like all other employees. He has some other supports to his income, such as family income and interest payments on his personal loan to CI. These are relatively minor sources of income however when compared to what he could take out of the firm as either dividends or earnings. The choice to reinvest profits has made CI stronger after years of neglect under Innova's ownership.

3.1.1.11 Family

The Sikora family is deeply connected with CI. Barry's spouse and daughter both work at CI and one of the major shareholders in the firm is the Sikora family trust. In many ways this is a "mom and pop shop". Barry has a great deal of experience with larger firms and this keeps it from being too much of a family affair. The concept of family goes beyond just those directly related to Barry and the feeling of belonging to the "CI family" is evident in the employees. Barry has created this culture and works hard to retain it. He is not just dad to his children but also fills that role for CI. Barry must be careful to professionally develop his likely successor, his daughter, so that she is ready to take over the firm upon his retirement.

3.1.1.12 Bias for Action

Barry has a strong bias toward action rather than planning. This has been successful to date. At this point though, any mistakes made by misguided actions are corrected quickly by more action. It is likely that planning would improve outcomes and better guide actions toward the attainment of established goals. Any planning would have to include a great deal of flexibility or it would risk being seen as an unacceptable waste of time within CI.

3.1.1.13 Requirement for Knowledge

Barry has a high need for knowledge. This includes internal and external knowledge. He keeps a close watch over everything within CI, as already discussed. He also uses his network to ensure he is kept abreast of changes in the market, including changes internal to customers, suppliers and competitors. This facilitates many of the other management preferences such as control, action over planning and relationship management. There are some gaps in his knowledge based on internal reporting methods but these are addressed in the next sections.

3.1.1.14 Desire for Growth

Barry would like to see CI grow before he leaves the company. He is not content to sit at the current level of revenue but wants to see it doubled. This is likely to be a difficult goal to achieve unless serious improvements are made; particularly in CI's marketing capabilities. The strategic alternatives may be able to achieve this over time but the 3-year projections used in Chapter 2, do not forecast this much growth. Net profit should more than double however and this should satisfy Barry's wishes for growth.

3.1.1.15 Summary

Management preferences within CI are tied to Barry. They fit the profile of many entrepreneurial companies. The above preferences present strengths and weaknesses. The decision criteria to be developed later will incorporate many of these preferences as they are at

the heart of what will be acceptable to Barry and thus CI. To suggest too many criteria that go directly against these preferences would be ineffective. Likewise when developing strategies in this chapter and further on, these preferences will be very important.

High control is likely the least promising preference in terms of successful implementation of a differentiated strategy. Control needs to be relaxed and more freedom granted to managers in order to make the most of their (and their employees') initiative and imagination. To meet customer needs in a way different from all the other printers will require the talents of all CI staff.

Entrepreneurial spirit, a focus on the customer, a sales orientation, a comfort with technology and a positive view of HR all argue in favour of a differentiated strategy. An entrepreneurial spirit, combined with a bias for action, will keep CI nimble and will reduce complacency as compared to more bureaucratic approaches. A customer focus is vital if customer needs are to be met in ways that set CI apart from the competition. The sales orientation will be extremely useful if it can be combined with a more strategic approach to guide it. Technology will be an important enabler both of the speed and flexibility at the core of the differentiated strategic alternative. HR will be the true backbone of CI and this fits with Barry's understanding of the importance of people. Strong HR is what will make use of all CI resources and perform all CI functions in successful ways.

In general, management preferences are quite compatible with a differentiated strategy. Management preferences lead directly to decision criteria that are likely to be used by management. Decision criteria are as follows:

Table 2: Decision Criteria

Decision Criteria	Description
Timeline	3-5 year horizon to retirement
Autonomy	Banks or investors to have limited influence on decision making
Going concern	Preference is to leave CI operating under a member of the Sikora family
Relationships	Long-standing relationships to be preserved if possible
Growth	Revenue growth to be a priority
Risk	To be kept to a moderate level on average with expected periods of higher risk
Leadership role	To be retained as much as possible
Capital requirements	To be found organically as much as possible
“Comfort zone”	Can be challenged but strategy cannot stray too far from what is comfortable

3.1.2 Diamond-E analysis: Firm resources

Firm resources are all of the assets at the disposal of the firm. These range from the tangible such as plant and equipment to those less tangible assets such as reputation. CI has a relatively high quality set of resources to draw upon. Of course, it is a small company and there is a difference between quality and quantity. The resources are limited and this presents challenges in its own right.

Table 3: Firm Resources

Factor	Description
Marketing	1) Semi-installed base of customers, 2) Sales force is focused on BC, 3) Good reputation for quick responsiveness, 4) Limited brand, 5) Market share unknown, 6) Good reputation within the value chain
Operations	1) Equipment is efficient and flexible, 2) inventory allows for quick reaction times, 3) Relationships with suppliers are strong, 4) Lease is not flexible-considering purchase of a facility, 5) Good pipeline of orders
Development	IT systems are improving
Financial	Improvements are necessary
Human Resources	1) Workforce is well trained and efficient, 2) Multi-functional
Corporate Reputation	1) Leadership role in CIMA, 2) Close relationships in industry, 3) Overall strong reputation as competitive but fair and reliable

3.1.2.1 Marketing

CI has generally neglected its marketing function. There is no plan in place for attraction or retention. There is no promotional campaign. There is no brand awareness in the market nor is there a plan to create a brand. Marketing is subsumed within sales. Fortunately, there is a semi-installed base of customers who are satisfied enough to continue doing business with CI. CI does have a good reputation amongst existing customers and is known, to some extent, in the Canadian industry but that is not quite the same thing as having a CI brand. This is a significant weakness in a market as competitive as the printing industry. The sales force concentrates largely on BC and seems largely complacent with a focus on customer retention. This is a serious weakness.

3.1.2.2 Operations

New equipment has been purchased which is efficient and flexible. This allows for fast, accurate and flexible production. Sufficient inventory is retained on hand to allow for fast production. Supplier relationships are actively maintained and this offsets, to some extent, problems with suppliers. There is some supplier concentration with Innova (Supremex) as

virtually the sole source for envelopes. See Annex C for a review of customer and supplier concentration at CI. CI's current plant is leased. This is a major expense for the firm and a decision is underway on whether or not to purchase plant space outright. There is normally a good pipeline of orders in process. The pipeline is not even though and this causes challenges in organizing work and reacting to short-notice orders. Generally speaking, CI is seeing improved operations due to the acquisition of new equipment and a strong production staff.

3.1.2.3 Development

The acquisition of new production equipment has modernized CI and allowed for much more economy of scope. Several of the presses are able to perform more than one type of print job. Supporting the effort to improve production is an effort to improve information systems within CI. A new enterprise system is being implemented and will be on-line in the fall of 2006. The result should be a more streamlined system for controlling work within CI and the ability to generate more detailed and accurate reports; something that is of concern presently. These tools offer CI a strong base to build on. It is not clear that these upgrades have been part of a synchronized effort to achieve a specific effect however. At some point the new equipment and IT systems will become inadequate or require expansion/upgrading and without a plan for this there is a risk that capital investment will be inefficient.

3.1.2.4 Financial

Financially, CI is in an interesting position. It is difficult to benchmark small privately owned firms but generally it seems that CI is performing adequately.¹⁶ There are some idiosyncrasies in the methods of accounting and Barry uses financial reports for limited operational purposes but the company seems healthy. The main focus is on gross profit. The next financial priority is to eliminate debt from external sources. Barry is, by far, the majority

¹⁶ See Annex D for a ratio analysis.

shareholder so there is no concern with external shareholders and their influence. Financial analysis forecasts revenue growth of up to 20 percent this year. If this is sustained then expansion may become necessary. Finance would become a major factor in any expansion plan. Presently, CI does not employ sophisticated financial management processes. These should improve along with implementation of the new enterprise system. There are problems with managerial accounting methods as many costs and measures of productivity are simply not collected, calculated or used to make decisions.

3.1.2.5 Human Resources

There are 30 employees on staff at CI, including Barry. Wages and benefits are competitive but no more than that. This is in keeping with the view that compensation is necessary but not sufficient to attract and retain talented employees. The next section will review company culture in more detail but it is this more than compensation that lies at the heart of HR at CI. New hires are attracted through newspaper advertisements or word of mouth. The HR department consists of one person who handles pay, benefits and hiring/firing of employees. The group consists of a range of employees with semi-skilled labour on the production line, sales staff with some training, customer service staff with little training and miscellaneous administrative staff with little training. Production, sales and customer service definitely receive more attention than the administrative staff. The adoption of Q-Base has helped to structure HR and administration within CI. The current situation is workable while CI is small but any expansion plan would benefit from a more structured approach to administration. Overall, HR is something that deserves more attention from CI but presently it is adequate.

3.1.2.6 Corporate Reputation

CI has a solid reputation in the market. Barry has taken on a leadership role for the BC membership of the Canadian Independent Mailers Association (CIMA), the lobby group working

against Canada Post. Barry and CI are so intricately linked that this leadership role extends somewhat to CI generally within the industry in BC. Outside of CIMA, CI has a reputation as competitive but honourable. It is a company that works within agreements and sees relationships as important. CI is also seen as a small company that is tied into the international direct mail and envelope printing segments rather than being a true competitor as a commercial printer. Barry and some of the other long-term employees have personal relationships and experiences that are respected by those in the market. CI's corporate reputation is a strength.

3.1.2.7 Summary

CI has a number of strengths in the area of firm resources. It has an adequate HR program for its present situation, it has a solid reputation, and it has good and flexible equipment and a strong set of existing customers. These strengths will be important features to build a strategy around. CI also has some weaknesses that must be addressed. The most glaring problem is in the area of marketing. The lack of a coherent approach to marketing is a significant problem that must be addressed. Financial and managerial accounting are both weak as well and improvement is necessary. Generally speaking, there is a need for planning and structure in some other areas such as HR, growth, and development. CI is operating exactly as one would expect a small entrepreneurial firm to operate, largely day-to-day and with everyone's best efforts. This has been successful to date and could continue to be successful in future. Unfortunately, as we have seen, the future is uncertain and what works today could easily be the kiss of death tomorrow in this highly competitive market.

3.1.3 Diamond-E analysis: Systems, Structure and Culture

Systems, structure and culture are all of the intangibles embedded in the way that CI operates. Systems refer to processes in place or procedures being followed and the results that they achieve. Structure refers to the way that CI is organized and "built". Culture is a

combination of company culture and, to some extent, the wider culture outside of CI. CI has some improvements to make but generally has some significant strength to build upon.

Table 4: Systems, Structure and Culture

Factor	Description
Productivity	Adequate but further refinement of efficiency required
Speed	Strength- this is a core competency
Organization	Standard structure for industry
Cross-unit synergies	Possible strength- Current processes/cooperation is adequate but improvements are possible.
Innovation	Strength- Production is innovative and new market segments are being entered.
Cross-cultural effectiveness	Possible strength- Culturally diverse employees but no advantages being gleaned.

3.1.3.1 Systems

3.1.3.1.1 Productivity

Costs, contribution margins and productivity measures generally are not well tracked within CI. This makes it difficult to create solid cost-based strategies. Efficiency is not carefully considered overall. CI reacts to supplier price changes, maintains essentially market rates of compensation and has little understanding of fixed or variable costs. This is an area where closer management would likely improve the bottom line. In any cost-based strategy this becomes a critical weakness. In a differentiated strategy this is less critical but still very significant as a firm weakness.

3.1.3.1.2 Speed

Speed is a core competency of CI. CI can turn-around customer orders within 5 days when the average in the industry is closer to 8 or 9 days. There are limitations to quantity in some cases but quick reaction to customer needs is a hallmark of the firm. This is a strength.

3.1.3.2 Structure

3.1.3.2.1 Organization

CI has a relatively standard structure for the industry. An organization chart is contained at Appendix D. CI has the following departments: Administration, Sales, Customer Service and Production. Administration is adequate for the size of CI but will need to become stronger as the company grows. The sales department is adequate for the current strategy but lacks a marketing ability to harness the efforts of the sales staff. Customer service is sufficient for the moment but it is expected that it would have to increase in both size and capability to handle a differentiated strategy. Production is well sized for current quantities produced. It would need to grow to manage a differentiated strategy. Overall, the current structure is adequate for CI's needs and with some modifications it will serve as a good platform from which to implement a clear strategic alternative.

3.1.3.2.2 Cross-Unit Synergies

Sales, customer service and production are the three major departments within CI. Generally, relationships are strong and team oriented but there are occasional conflicts between departments. There is a common understanding of the firm's situation and the role of each department but this is sometimes forgotten in the heat of the moment. That being said, there is a strong team spirit. The other focus is on the customer. Each department is acutely aware that they need to please customers or CI will fail.

Not surprisingly for a company in transition, the processes between departments are somewhat inefficient at times with a great deal of redundancy and paperwork required. A salesperson is required to complete a lengthy document to initiate any order. This document is then reviewed by customer service which often finds faults or omissions in the salesperson's work. Sales are then required to fix the problem and return the document to customer service. Eventually, customer service processes the order to the point that it moves to production where all

of the paperwork is checked again before the job is started. Finally, the job is completed and production sends copies of the completed order forms to shipping and customer service. Shipping does its job and then notifies customer service once an order has been delivered. Improvements in these processes would not only increase efficiency but conflicts would likely decrease as frustration levels drop. Despite these inefficiencies CI is already exceptionally fast, improvements would only make it harder to imitate.

Barry has implemented a management system called Q-Base. It is based on ISO 9000 but is designed for small to medium businesses. This ensures that quality control is maintained through internal processes and that structure is brought to the entrepreneurial firm. Standards are applied to internal processes but also to suppliers so as to allow for a certain level of accountability for activities conducted in other areas of the value chain.

Cross-unit strength is something that can be built on but several improvements could be made.

3.1.3.3 Culture

3.1.3.3.1 Innovation

CI is relatively innovative. It has purchased new machinery and moved into new market segments such as commercial printing. These moves have fostered an innovative spirit within the firm and this is something that can be built upon. Production, sales and customer service are looking for new ways to satisfy customer needs. There is a learning curve involved for new products which has some impact on productivity. The selection of areas for further innovation is hampered by the lack of a marketing plan or expressed firm strategy. Innovation is a strength of CI.

3.1.3.3.2 Cross-Cultural Effectiveness

CI is a diverse firm with a mix of genders and cultures within it. This has not been turned to any significant advantage by the firm. The lack of cultural homogeneity has sometimes made clear communication and understanding difficult between people with different languages.

3.1.3.4 Summary

CI has strong organizational capabilities. To some extent this is a team enjoying the entrepreneurial approach after years of corporate constraints. The ability to innovate is very important and, with some changes the teamwork will improve even further. CI is in a good position internally.

3.1.4 Diamond-E analysis: Summary

The strengths and weaknesses internal to CI are as follows:

Table 5: Summary of Strengths and Weaknesses

Strengths	Weaknesses
Management experience	Marketing
Speed	Financial management
Flexibility	Processes
Relationships	
Innovation	

The internal analysis of CI must be applied to a strategic alternative. The two alternatives presented in Chapter 2 were both workable but the differentiated strategy was superior. It cannot

be implemented without addressing the weaknesses in CI which create gaps in capability between where CI is today and where it must go tomorrow. To ensure a thorough analysis, the strengths and weaknesses are applied to both strategic alternatives.

3.2 Strategy Comparison

To decide on a strategic alternative they must be compared against each other and against the status quo. They each seem workable based on the discussion so far. The question is which one is more likely to better meet CI's, and thus Barry's, needs. Projections of each strategy's potential have already been presented in Chapter 2. The projections provide a way to examine the possibilities. This is only one way to compare them though. The strategic alternatives need to be put against the criteria to see which one is preferred. Once the strategic alternatives have been looked at through both lenses, one will be selected.

3.2.1 Cost-Based Strategic Alternative

3.2.1.1 Making Use of Strengths

CI would need to build on its management experience and existing relationships. Management is very experienced and proficient in the printing of envelopes. This is something that will make the transition back to its roots as Classic Envelopes Plus, easier. Existing supplier relationships would help ensure good supply at reasonable prices. Some customer relationships would be sacrificed as CI moved out of commercial printing. These should be offset by new customers in the envelope segment. Relationships with incumbent firms would sour however as CI increased market share at their expense.

Innovation would be reduced only to that which seeks greater efficiency or that can be tied to the envelope printing market exclusively. Better to follow others than increase costs for

innovation. Marketing and sales may need to become more innovative but this is not the same thing as creating new products.

Flexibility would be reduced. There would only be flexibility with regard to envelope printing. Production may need to remain flexible but not with different types of products. It will be better to focus exclusively on envelope production to the point that inefficiency is eliminated than to have a high level of flexibility. This would not only be a function of labour or management but also printing presses would be capable only of envelope printing.

Speed of production would remain as an important part of this strategy. There is no reason to reduce speed unless it increases costs to an unacceptable level. Competitors will find it more difficult to compete with a CI that can produce both faster and cheaper than they can. The intention is not to target customers who pay more for speed (although this is not a bad thing) but rather to be able to offer products quickly.

3.2.1.2 Improving Weaknesses (closing gaps)

CI has to improve on its weaknesses to succeed on the basis of cost. The most glaring weakness in this strategy is the lack of adequate management information or controls over costs. The implementation of a new IT system will likely improve the situation but management must reorient itself toward cost control. An entire new system of reports and decision support tools need to be developed so that every cost is understood. Every time that CI spends money its effects must be understood. Every time that a press runs or an hour of time is spent on an activity its cost and impact must be understood. This may not be a lot of fun but it is the key to profitability and success. Considering that the cost of goods sold is approximately 50 percent and expenses represent over 45 percent of revenues there is room to improve profitability within CI. It is not unreasonable to expect that a significant focus on cost controls would result in a good return to the bottom line.

Marketing is very weak. It must develop the ability to create and execute a slow penetration strategy. This strategy must keep in step with the ability to produce efficiently. In this regard CI will need to spend some resources to improve its marketing capabilities and to finance market expansion. It will not matter how efficient CI becomes if it does not generate enough volume then it will never achieve measurable economies of scale. The more market segments and customers that can be found which require large orders (relative to CI's equipment capacity) then the greater the economies of scale CI will realize.

Efficient processes lie at the heart of a cost-based strategy. CI has some good processes and some that need work. An examination of all processes would need to be undertaken. Those processes that promote efficiency should be retained while those that hamper it should be improved or eliminated. A good example is the process of taking a customer order from sales through to production. There are too many steps and too much paperwork involved.

3.2.1.3 Risks and Mitigation Measures

There are risks with this strategy. The risks stem from both the internal and external analysis to this point. The cost-based risks follow.

Focussing on an envelopes only strategy is risky. This is a very specific market that, if negatively affected, would cause problems for all aspects of CI's business. This strategy makes it difficult to mitigate industry risk. Some possibilities would be to diversify geographically thus spreading risk to different areas. Another approach would be to develop long-term contracts with customers and suppliers to help with any short-term ups and downs in the industry. In the end, with such a narrow focus on envelopes, it will be difficult to react to anything that interferes with the envelope printing market.

There is a need to capture a great deal of market share and CI may have difficulty with it. The size of the market is difficult to calculate but CI would have to double its current envelope

revenues just to break even once it dropped the other printing capabilities. Competitors are likely to react strongly to this level of expansion in the market. Suppliers, such as Supremex, might also be unwilling to allow so much concentration and take steps to either find other printers or integrate printing into their West Coast operations. The marketing function is a key to growth. CI must develop an aggressive approach to building market share and look for innovative ways to secure large envelope printing contracts from customers. New suppliers may need to be found for those worried about customer concentration in CI or perhaps more sophisticated contracts could be used to back up existing relationships. Competitors would be expected to react. CI must simply ride out the storm and work on providing good envelopes at the lowest prices possible.

CI may not be able to achieve sufficient efficiencies to make this viable. There is room for improvement but there is a difference between planned efficiencies and the efficiencies realized in practice. To some extent, higher volumes will lead to higher margins regardless of how efficient CI becomes. To compete successfully, every possible way to reduce costs must be identified and considered. This may be re-stating the obvious but without sufficient improvement, this entire strategy becomes unworkable.

3.2.2 Differentiated Strategic Alternative

3.2.2.1 Making Use of Strengths

CI must make maximum use of its existing ability to react quickly to customer orders. This is the core competency behind this strategy. The firm must ensure that it uses all of its energy to support it. Anything that increases speed should be considered and, unless it is too costly, should be implemented.

Flexibility is important as it allows CI to find market segments that can benefit from fast production processes. There is no need to focus exclusively on current markets because there is

freedom to produce products that satisfy new customer types. This will also work well with another CI strength; innovation.

Innovation will allow for customers to be served in new ways. The more innovation that CI can muster will lead to further advantages. There may be more ways to meet customer needs that lie within CI and have not been considered yet. Employees and management must keep in the habit of looking for new product offerings or novel ways to take advantage of CI capabilities.

Management experience is both a blessing and a curse for this strategy. It is a blessing due to the deep understanding of the market. It is a curse because management is not used to a differentiated strategy. This is something that will need careful consideration going forward.

Relationships will be important in this strategy. In envelopes, there is no one currently in this space. In sheet printing, there are many more types of competition. CI should expect some reaction from rivals. Suppliers should remain satisfied with this approach. Some existing customers will find CI's shift away from the cost-based elements of their current strategy uncomfortable and some of them may need to be dropped as a result.

3.2.2.2 Improving Weaknesses (closing gaps)

CI absolutely needs to get a grip on its marketing functions to succeed with a differentiated strategy. Moving into new markets and taking advantage of fleeting opportunities will require an aggressive and extremely effective approach. The marketing focus should permeate CI such that everyone remains clear on why speed and flexibility is so important to success. The importance of improving CI's non-existent marketing function is critical. All the speed and flexibility in the world is wasted unless it can be brought to market.

Financial management remains very important under a differentiated strategy. Margins should be higher but this is still the printing market and cost is king. New reports and decision making tools need to be developed and used to inform decisions.

Processes, especially surrounding speed and flexibility, need to be reviewed. Integrating the departments more effectively will pay off in this strategy as friction is reduced. The focus is not purely based on efficiency (although this remains important) but on improving the core elements of speed and flexibility.

3.2.2.3 Risks and Mitigation Measures

The differentiated strategy has risks associated with it. We have seen how tight this market is and differentiated strategies are not favoured for good reason. To get past the cost consciousness of this industry a firm must have itself in good order. The risks follow.

The first risk is that higher margins may not materialize. This could be the case for several reasons. CI could find itself unable to create and execute a viable marketing strategy. Competitors could copy CI's approach. Customers may not be willing to pay higher prices for speed and flexibility. The marketing strategy could be mitigated by hiring outside talent or by pushing the existing sales team. Execution of the marketing strategy would require will and determination from Barry. Competitors could copy CI's approach and this would require careful monitoring. Reactions to this must be based on how much better CI is at executing the strategy compared to the competition. CI must also look for market segments to expand into in order to make it difficult for competitors to copy their footprint in the industry. The price charged to customers must allow for higher profit margins. Customers must be kept happy enough to continue paying these prices. To do this CI must pay careful attention to all customer relationships and always deliver on-time. Obtaining customers in many market segments should also spread the risk of any one customer/customer group balking.

The second risk is that inefficiencies dilute any increases in profit margins. This is a huge potential problem. Cost remains vital in this industry, even with a differentiated strategy. CI faces additional risks because of the variety of market segments it might target. The more different goods and services offered by CI the more likely that they will be produced more inefficiently. A close eye on costs and looking for efficiencies will reduce this risk.

3.2.3 Comparison to Decision Criteria

Projections and KSFs are two aspects of the decision, and they both pointed to a differentiated approach. Actually comparing strategic alternatives against the internal decision criteria will provide the final requirement to make a choice.

Figure 11: Decision Criteria Comparison

DC	Weight	Cost-based	Differentiated	Status Quo
Growth	10	6	8	5
Risk	10	6	7	5
“Comfort zone”	8	8	7	6
Autonomy	8	9	9	9
Going concern	8	8	8	6
Capital requirements	7	8	6	6
Timeline	7	4	8	6
Relationships	7	5	8	8
Leadership role	5	8	9	7
Total		479	541	443

The decision criteria comparison is as subjective as the other comparisons thus far and further explanation of scores is necessary. The scores are based on similar assumptions as those for the projections in Figure 9: Strategy Projections, from Chapter 2. This is for the projected average outcomes at the end of fiscal year 2009.

The cost-based strategic alternative is low on growth due to the loss of non-envelope business. Risks are moderate and not low because of the focus on one type of product alone. The comfort zone rating is high because this alternative represents the roots of CI and it would come

naturally to management and employees. Autonomy is high, as it would be for all alternatives. The possibility of leaving CI as a going concern is high. Capital requirements are low as there is no need for additional machinery within the 3 year timeframe. Timeline concerns are high because this alternative will require more time to become highly profitable. The loss of non-envelope business will take time to replace. Relationships suffer but Barry's leadership role, limited now to envelope printing will be retained. This is an improvement over the status quo.

The differentiated alternative scores highly on almost all criteria. Although not expected to double revenues within 3 years, it does predict strong growth in all segments without losing anything dramatic. Risk and comfort zone problems are moderate. The ability to leave CI as a going concern is strong as is the timeline of 3-years to achieve results. Capital requirements may increase thus leading to a lower score in the category. Relationships and a leadership role for Barry are strong as he is able to move between market segments without seizing enough market share in any one segment to ruin relationships. This strategic alternative is stronger than the other two in terms of the decision criteria.

The status quo is the weakest of the three alternatives. It is not particularly strong in any areas relative to the others while it has the most significant weaknesses. Growth is weak because of the lack of strategy to achieve it. Presumably any growth will be due to external factors and this would carry every alternative to better returns anyway. Risk is higher because there are no plans to identify or manage it. For example, Canada Post could cause serious problems and CI, if the status quo remained in effect, would remain reactive and uncoordinated. The timeline is poor if we assume that this approach would lead to the same outcome in 2009 as that projected for 2006. One of the two strategic alternatives should be chosen rather than retain the status quo.

3.3 Internal Analysis: Conclusion

Internally, CI has strengths and weaknesses as does any other firm. There are ways to build on their strengths and improve their weaknesses. Two strategic alternatives have been assessed, one cost-based, the other differentiated. These alternatives take CI's internal characteristics into account. Each strategic alternative is feasible when compared to the other and against the status quo. The question to be answered is which alternative should be chosen and how should it be implemented.

4 STRATEGY SELECTION AND DEVELOPMENT

This chapter will produce a number of recommendations. The key recommendation will be on a strategic alternative. The other recommendations are geared toward the implementation of that alternative.

4.1 Recommended strategic alternative: Differentiate

The three alternatives are summarized by their scores in all of the comparisons in Chapters 2 and 3.

Figure 12: Overall Comparison of Alternatives

Comparison	Cost-based	Differentiated	Status quo
Projections	479	541	443
KSFs	293	354	288
Decision Criteria	479	541	443
Total	1251	1436	1174

Figure 12: Overall Comparison of Alternatives is not based on any weighting between the three forms of comparison. If it were, then KSFs and Decision Criteria would be weighted more heavily than the projections. In this case it is irrelevant as there is one clear winner in each type of comparison. The differentiated alternative is stronger in all areas. It is the logical choice for further development. CI should pursue a differentiated strategy.

4.2 Recommendations

CI has much to do if it is to successfully implement a differentiated strategy. The recommendations from this point forward are geared toward implementation. They are designed to be easily transformed into a plan for execution in the marketplace. Recommendations are

described then explained in terms of steps to be taken followed by ideas on how to take the recommended steps in order to implement the recommendation.

4.2.1 Recommendation 1: Create the vision

4.2.1.1 Description

CI is newly out from under corporate control and back into an entrepreneurial world again. CI is begging for a vision of its future and some guiding principles on how it will behave to get there. Barry needs to take the time to create this vision and communicate it to his team. This will ensure that everyone understands where CI is going while giving them a frame of reference for how today's actions fit in with the CI of tomorrow. There is a large amount of change required to move from the present strategy to a more differentiated strategy. Vision is important as it helps people to cope with change by giving them an idea of what they are changing for. Once everyone has the same vision, or at least understands the vision, they can begin moving toward it.

4.2.1.2 What to Do

The first step is to spend some time clarifying exactly what Barry's vision, values and principles are. This is probably best done alone to begin with but input from some key stakeholders will become important later on. These things can be created in isolation but it is usually better if it has some input from the team based on their realities. The second step is to communicate these ideas internally so that everyone understands them. This is Barry's best chance of pulling the team together and letting them glimpse the bright future that he has in mind for CI. The final step is to continue monitoring progress. Starting down the path to change is one thing, it is another to get where you want to go. This is Barry's proper role; the keeper of the vision.

4.2.1.3 How to Do it

Barry needs to put time aside to think about the future of CI. It may not feel natural to begin with but visualizing CI in 3 or 5 years is a good starting point. Once Barry can envision what CI looks like in the future he can begin thinking about how to communicate that vision to his team. The team has a stake in that future and it is at the point that he presents the vision to them that he should be ready to modify his ideas with the best of those presented from the other team members. A shared vision of CI's future should emerge.

4.2.2 Recommendation 2: Marketing

4.2.2.1 Description

CI must improve its marketing capabilities. Currently there is no marketing in place. This must change or CI will not be able to identify or react to opportunities. The current team in sales is not oriented to marketing. There is no guiding principle to build a brand around. There are no campaigns to promote CI in the marketplace. CI has a short-term oriented sales force and no clearly articulated guidelines for them. Targets are assigned by internally focussed references to "last-year's numbers" and not by a particular result in the marketplace.

4.2.2.2 What to Do

The first step is to obtain sufficient marketing expertise either by hiring a consultant/marketing expert from outside or by developing in-house talent. This should be done quickly to ensure that an effective plan or approach is developed as early as possible so that it can begin bearing fruit. The second step is to develop a marketing plan and processes. The third step is to execute that plan based on an external focus on the customer and the industry. The final step is to develop the habit of marketing so that it becomes a natural extension of the employees.

4.2.2.3 How to Do it

In the short term, Barry should leverage his experience and personal talents in sales to hold brainstorming sessions. A consultant may be useful to facilitate the session but it is entirely possible to conduct it completely in-house. The session needs to generate ideas on where the marketing plan should take the company in light of the vision from Recommendation 1. Useful topics might be: Identification of market segments for entry, CI's brand, Advertising, How to gather and use market information, Marketing and sales goals, and the list goes on. Until the habit of brainstorming is established it would probably be a good idea to start small, perhaps with a session on the marketing topics that should be brainstormed.

4.2.3 Recommendation 3: Financial and operations management

4.2.3.1 Description

CI has unsophisticated methods of financial management in place. A deeper understanding of how costs and revenues flow through the firm is absolutely necessary. New reports are required and the existing ones require adjustment so that relevant information to support decision making is readily available.

4.2.3.2 What to Do

The first step is to streamline the financial and operational reports. The second step is to collect and analyse customer information and revenues. Reports should be organized around market segments and customers rather than the current internally focussed approach which assigns customers by sales representative. Secondary reports can identify sales performance but this is less relevant than what type of customers are the most profitable and understanding how revenues are being generated. The third step is to examine costs and begin collecting and reporting on them. This is very important as it allows for an understanding of efficiency. It is not enough to understand revenues and customers but CI must also understand the consequences of

decisions in terms of costs. It does not matter how much of a premium can be charged to customers if the premium is diluted by the increased cost of meeting that customer's needs. The importance of this cannot be understated.

4.2.3.3 How to Do it

Management needs to consider the information that it needs to make decisions. To determine which orders are the most profitable there is a need to know how much revenue was created from that order and then there is a need to understand the costs that were generated to complete that order. To make a decision on how to prioritize orders it is necessary to understand the costs associated with each sequence and compare it with the differences that the prioritization would have on revenues. The best sequence of orders would maximize profits. The examination of costs and revenues would benefit from the input of someone experienced in managerial accounting. The expert would help explain which information should be gathered and how it can be presented to aid in decision making.

4.2.4 Recommendation 4: Autonomy

4.2.4.1 Description

Barry should begin increasing the autonomy of his managers. This is probably the most difficult recommendation for Barry to implement as he is accustomed to a high degree of direct control. As already discussed, the best role for Barry is that of visionary. His focus needs to be on maintaining his vision of the company. Managers must be given the autonomy and authority to manage the lesser and even the "not-so-lesser" details. Barry needs to focus on strategic direction. This is important for two reasons. The first is that the strategic vision will not be realized unless someone is pushing it and keeping firm activities focussed on it. If this focus is split by unimportant issues then it becomes more difficult to achieve the aim. The second reason is that Barry wants to retire within 3-5 years. His preference is to leave a going concern behind

him, preferably in the hands of his daughter. To accomplish this will require the development and grooming of both the existing management and his daughter. Development will never occur as long as Barry is making decisions that should fall in the purview of his management team. To develop the management team, and for Barry to retire while leaving CI as a going concern, more autonomy is necessary.

4.2.4.2 What to Do

The first step is to identify issues that are important enough to be on Barry's list of responsibilities. Items affecting the ability achieve strategic intent should be on his list. Items that cover less central issues should not be there. To be sure, CI is a firm of only 30 people and Barry's effective span of control is probably close to 30 but that is not the point of this recommendation. The idea is to make the organization self-sufficient enough to operate effectively after Barry is gone. The second step is to develop a timeline and plan for Barry to hand off control over those issues no longer on his personal responsibility list. The final step is to create a succession plan such that his daughter is ready to assume control over the business after Barry retires. This will require her to assume more and more autonomy over business decisions as Barry approaches retirement. He should be able to leave CI feeling comfortable that he has left it in good order and in the hands of a very capable team.

4.2.4.3 How to Do it

To determine those issues that warrant Barry's attention he would need to seriously consider those things that have the most impact on the realization of his vision for CI. It will probably be difficult to do this since it may feel like everything is important. The truth is that only a few things will likely need his full attention. A few rules of thumb might be of service. Anything that needs to change significantly should be reviewed by Barry regularly. Anything that if jeopardized would put CI at risk should be reviewed by Barry regularly. Anything that

represents a significant new opportunity or threat should be reviewed by Barry. Other rules of thumb could be established but the important thing for Barry to remember is that his focus needs to be on the achievement of his vision and the development of his subordinates so that they can take over the firm when he leaves.

It will take time to build enough confidence to allow Barry to “let go” when the time comes. Barry should begin by giving up decisions in smaller areas such as the assignment of overtime or the allotment of vacation time. Once he is satisfied that his managers are making sound decisions in these areas he can give up other items.

Should it prove too difficult for Barry to relinquish control, he might consider bringing in an executive to take over many of the details. Barry would have to trust this person but if someone like this could be found then it would accelerate Barry’s ability to focus on the strategic aspects of getting CI to where his vision sees it.

4.2.5 Recommendation 5: Encourage Innovation

4.2.5.1 Description

Innovation is very important to this strategy. New opportunities will present themselves. New ways to meet customer needs will be necessary to take advantage of these opportunities. CI is rooted in a cost-based tradition. Envelope printing has been the staple of CEP’s and now CI’s diet. Moving away from this will require flexibility in thinking and operating. Innovation will not happen without a conscious effort. This is something that must permeate the entire firm from the longest serving manager to the newest production worker. It cannot just be focussed on sales or marketing but anywhere that innovation can result in greater success, it should be considered. This is the way that a differentiator stays ahead of the competition and sees profit margins increase.

4.2.5.2 What to Do

The first step is to create an environment where people feel free to express innovative ideas. No one is too junior or too inexperienced to offer innovative ideas. Once people feel free to innovate then they will begin doing it. The second step is to develop a system for evaluating ideas. Not every innovative idea is going to succeed. Not every innovative idea is going to further the vision of the company even if it did succeed. There must be a forum for deciding on how to choose which ideas will be implemented and which are destined to stay “in the box”. The third step is to find ways to implement those ideas selected. There is a tricky balance between keeping an efficient operation running today and making it better for tomorrow. If the organization is unable to implement new ideas then it becomes stagnant. That is why it is important to ensure that an innovative spirit is encouraged.

4.2.5.3 How to Do it

To create an environment conducive to innovation, CI needs to start by allowing people to express innovative ideas. A suggestion box has been put up and this is an excellent method. Perhaps having a portion of each management meeting devoted to new ideas and brainstorming would also help. Management should be encouraged to canvass their people to find new ideas. Informal methods such as a quick talk during a break or at a social event can spur innovative ideas. Formal methods such as meetings or management retreats can also be useful. CI is a small company and time is of the essence so building opportunities into existing activities such as short *brainstorming sessions during management meetings* is probably the best place to start.

4.2.6 Recommendation 6: Customer focus

4.2.6.1 Description

Advice to develop a customer focus probably seems a bit obvious. After all, every firm needs to have a customer focus and CI already has one that has been adequate thus far. In CI's

case this must become even more prevalent. CI must have a clear and unwavering focus on the customer; much more so than the average cost-based competitor. CI is offering a differentiated product. That product should be backed up by differentiated service. Customers should feel that CI is their only choice not only because they deliver but also because they have the customer's best interests at heart. CI finds problems, and fixes them, before the customer even realizes that there is an issue. CI goes beyond merely filling customer orders and becomes an important partner in their customers' success. If CI can do this then it will be extremely difficult for rivals to compete.

4.2.6.2 What to Do

The first step goes back to vision and marketing. These need to be completed before moving to a customer focus. The second step is to ensure that all employees understand the customer focus. Everyone's performance has an impact on a customer's feeling about CI. The better everyone is able to understand their impact and improve on it the better CI will find their customer relationships and brand strength. The final step is to translate this into action by creating concrete processes and objectives for all employees.

4.2.6.3 How to Do it

The simplest way to start is through management. Management must have a clear understanding of Barry's vision as this will provide the context for the customer focus. Assuming that management not only understands but has had a chance to influence the vision, the next task is to ensure that it permeates the entire company. A company meeting or social event to go over the vision and the resulting need for a customer focus will be the start. Following up with regular feedback through management contact with the employees should maintain the focus.

4.2.7 Recommendation 7: Relationship management

4.2.7.1 Description

Relationships are important to this strategy. Customers must be kept happy, as already discussed. Suppliers need to be kept happy. Rivals, to some extent, should not feel threatened lest they become even more competitive at an inopportune moment. Rivals and competition should not be feared but there is no need to antagonize them unnecessarily either! A structured approach to understanding and managing relationships should be implemented. This will allow for better interaction within relationships even if Barry, managers or other key staff is not present. Not only will this enhance the chances of better relationships but it should also help Barry with succession and management autonomy. When the entire firm is able to help manage relationships rather than one or two people then those relationships should be strengthened.

4.2.7.2 What to Do

The first step is to clearly identify all existing relationships and categorize them. Relationships can be ranked on strength, revenues, future potential, risk, and any number of other factors. This allows for an understanding of individual relationships and puts them in context of all relationships in the firm. The second step is to look for areas where relationships are strong and where they are weak. This allows for an understanding of how relationships are actually functioning and where CI might be able to influence them. The third step is to develop a plan for the management of these relationships. There are many ways to do this, some formal and some informal, but the intent remains the same; to improve the relationship.

4.2.7.3 How to Do it

Simply list all existing relationships. Management then needs to examine each relationship so that everyone is aware of what it means to CI from each department's perspective as well as overall in terms of revenues and costs. An examination like this will lead to an

understanding of how important that relationship is and how it might be influenced as well as the consequences of that influence.

4.2.8 Conclusion

This paper has examined the printing industry enough to understand that it is extremely competitive. Cost-based strategies are prevalent and the market is extremely fragmented. In short, it is a difficult place to succeed. CI is starting down a new path in this market. It has come through an entrepreneurial beginning, to corporate ownership and now back to its entrepreneurial roots. Barry Sikora is at the head of this new beginning and his company stands at a cross-roads. Decisions need to be made on the future of the company despite uncertainty in many areas. Looking into CI it is clear that it has strengths and weaknesses. These are the building blocks of any strategy that CI moves toward.

Barry has a great deal to think about before he makes his decisions. Two strategic alternatives were developed. Each of them seems feasible; either cost-based or differentiated. In the end it is the differentiated strategy that CI should consider. This is the best way out of the current situation. The focus for CI should be on speed and flexibility in an effort to capture market segments that reward these characteristics. Change is necessary to achieve this and several recommendations were presented to facilitate that change. If CI can effectively manage the move to a differentiated strategy then it will be a going concern and Barry can retire knowing that his company is doing well.

APPENDIX A- ADDITIONAL VALUE CHAINS

Direct Mail Advertising

This section examines the value chain of direct mail advertisers. This is important due to the large proportion of CI's business that comes from this sector. An understanding of this industry will allow for an analysis of how it impacts on CI's business. Those areas that CI is directly involved with are clearly indicated throughout the analysis. Generally speaking, CI is a print shop for the purposes of the direct mail value chain.

The direct mail advertising industry is based on sending mail advertising to international customers or prospective customers. Relatively small numbers of customers respond to this form of advertising and so large quantities of mail are required. This situation requires the direct mail advertisers to watch their costs or profits are quickly eroded.

Direct mail advertisers offer a wide variety of products to prospective customers. Lottery tickets are one popular product. These can be tickets for hospital or charity lotteries up to and including standard Canadian lotteries offered on the market. There are also goods and services offered. This segment of the market is very susceptible to regulation and the activities of national postal services but these factors will be considered more closely later in this chapter.

The direct mail advertisers generally manage the flow of their work through the value chain. The value chain can be considered as a chronological series of steps resulting in a customer receiving a piece of direct mail advertising. In practice there are often steps taken concurrently but the chronological approach offers a simple way to understand the industry. Each

step will be considered in turn. The value chain is constructed as outlined in Figure 13: The Direct Mail Value Chain

Figure 13: The Direct Mail Value Chain

Marketing	Design <i>(CI partially involved)</i>	Print Shops <i>(CI directly involved)</i>	Envelope Mfgs <i>(CI partially involved)</i>	Letter shops	Distribution
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Adapted from Bukszar (2006)

Marketing: The first step is marketing. There are relatively few elements involved. The primary method of marketing is in the form of mailing lists. These lists are created by companies who specialize in gathering consumer data and addresses. Once created, the lists are put out to the direct mailers which pay a premium for quality data in a timely fashion. These lists are normally in a format which allows for names to be filtered according to target market information such as age, marital status, gender and similar demographic information. Demographics seem to be the only information that the marketers can add to these lists. Direct mailers then use the lists to match their specific offerings with these prospective customers. This has to be done quickly as the mailing lists go rapidly out of date. There is a small rate of customer acquisition based on these lists but they represent the most well established means of new customer acquisition on the market (Menon et al, 2005).¹⁷

The direct mail advertisers do engage in cooperation to some degree. It is not uncommon for active customers' contact information to be shared between direct mailers. This is because customers who are active for one advertiser are often willing to be active for another advertiser. The sorts of offerings made by direct mailers are not always substitutes and so it is seen to be

¹⁷ Information on the response rate was difficult to determine but at least one study (on tobacco related advertising) indicated an overall response rate of 10percent. In reality, this number is likely much lower for other kinds of, less addictive, products.

more valuable to give up active customers' information in order to obtain information on another companies' active customers. The end result is a more targeted mailing, presumably with a higher rate of return.

Marketing KSFs:

1. Speed of customer list acquisition.
2. Maximize active customers through cooperation or other means if possible.
3. Minimize price to direct mailer.

Design: Design is the next process in the chain. This process can be performed by three different types of player in the industry. The first, and quite common, approach is for the direct mailer to conduct design in-house. This offers a quick way to integrate the product offering into a design without needing to waste time ensuring accuracy or quality with a third party. The second approach is to use a firm specializing in the design of advertising. This can increase quality for specific offerings but often more time is required to get the design to the point that it can be printed. The third approach is to use a print shop to do both design and printing. This is a good way to integrate design and printing quickly but it suffers from the limitations of using an outside designer. It is also uncommon to find print shops that specialize in design enough to make this a common approach for any but the most basic designs. Currently software based design formats are becoming popular.

Design must consider several factors. The first is to clearly identify the level of quality required. Higher quality requirements lead to higher costs and possibly longer timelines. Quality also limits choices of print shops which often do not offer all possible print qualities. The second consideration is the material to be used for printing. The raw materials used have an influence over costs in ways similar to the level of quality. The final consideration is speed

Design KSFs:

1. Matching quality of the design with quality required for product offering.
2. Speed of design.
3. Minimize costs to direct mailer.

Printing: Printing is the third element in the value chain. Printing has several inherent functions. The first is to ensure that the design can be printed as envisioned by the designer. This is not a major step but it does require print shops to have some degree of in-house design capability. Minor adjustments to design can be made at the print shop and often are as a matter of routine. The second step is to prepare the machinery for printing. The final step is to print the required materials. Printing is required in at least two medium. The first is the actual advertising material. This is the form of a flyer, letter, brochure or other similar product. The second is any printing that needs to be put on the envelope containing the advertising material. This can be anything from a logo to advertising in its own right. Normally, print shops have no role in putting customer addresses onto envelopes; a function conducted in letter shops.

Print shops have several factors to consider. This is the first element in the value chain which requires any significant plant, equipment or inventory. Printing presses are of varying size and capability. Not all print shops can offer the same services due to these limitations. Raw materials inventory, largely paper and ink, is a factor in terms of the ability to react to print jobs. There is also relatively little spoilage of paper so inventory can remain on hand for quite some time. Conscious decisions are required to determine how much inventory to have on hand in order to react quickly versus how much money can be tied up in inventory. IT systems are also becoming a more important element. Designs can now be sent directly to print shops in

electronic formats. These formats can then be placed directly onto printing plates thus cutting out the need for manual plate creation. This creates a faster process overall.

Printing KSFs:

1. Correct balance of inventory.
2. Speed of process from design to printing.
3. Correct quality of print work.
4. Minimize costs to direct mailer.

Envelope manufacturers: Envelope manufacturers have a specific role to play. They can come into play before print shops but that is immaterial to this analysis. Envelope manufacturers provide the envelopes which contain the printed product and may also include return envelopes depending on the nature of the mailing. Envelopes may or may not require specialized printing; a function normally performed by specialized print shops or occasionally within some envelope manufacturing firms. This places envelope manufacturers in the position of being both customers and suppliers to print shops. In terms of the value provided to direct mailers, envelope manufacturers can provide standard or non-standard envelopes tailored to their needs.

Envelope manufacturers are faced with problems similar to those faced by print shops. The question of inventory arises. There must be enough raw materials inventory to ensure that any orders can be filled quickly but not so much that it becomes a drag on the firm. Ideally, there is enough finished inventory to meet the requirements for most standard types of order. This makes the envelope manufacturers' inventory management issues more important than those

faced by print shops. The question of design is similar; quick turnaround from design to finished product.

Envelope manufacturing KSFs:

1. Speed of production.
2. Correct balance of inventory.
3. Quality.
4. Minimizing costs for direct mailers.

Letter shops: Letter shops are where the printed material meets the envelope.

Envelopes are prepared with addresses on them and then stuffed with whatever printed material is required. This is a highly mechanized process but the consequences of a mistake can ruin the work of every other step in the value chain to this point. Accuracy counts in this process! IT has gone a long way to increasing both speed and accuracy for letter shops. Letter shops often have to provide a link between the printer and the envelope manufacturer. This requires a level of coordination that is not as necessary for the other portions of the value chain.

Letter shop KSFs:

1. Accuracy.
2. Coordination between print shops, envelope manufacturers and distributors.
3. Minimizing costs for direct mailers.
4. Speed.

Distributors: Distributors can be considered as something akin to couriers or a mail service. These firms specialize in taking the bulk mail that results from earlier operations and transporting it into another country. Once the bulk mail is in the foreign country it is inserted into the postal system there at local rates. The key here is the ability to deliver this mail at an overall lower rate than would be the case if delivered by Canada Post and then into the other country's postal system. The ability to distribute bulk mail requires systems similar to courier or mail services. Packing, transportation, tracking and the ability to deliver into an established postal system are all key elements of this process.

Distributor KSFs:

1. Speed of delivery.
2. Accuracy.
3. Minimizing costs for direct mailers.
4. Expertise with foreign postal services.

Direct mail value chain summary: The direct mail value chain has been explained in some detail. There is a need for the direct mail advertiser to get the printed advertising into as many new customers' hands as possible in the shortest possible time for the least possible cost. The challenge for those within the value chain is to deliver all of these while generating enough profit to make the endeavour worthwhile. The KSFs throughout the value chain are summarized as follows:

Figure 14: Direct Mail KSFs

Marketing	Design (CI partially involved)	Print Shops (CI directly involved)	Envelope Mfgs (CI partially involved)	Letter shops	Distribution
<ul style="list-style-type: none"> • Speed of customer list acquisition • Maximize active customers through cooperation or other means if possible • Minimize price to direct mailer 	<ul style="list-style-type: none"> • Matching quality of the design with quality required for product offering • Speed of design • Minimize costs to direct mailer 	<ul style="list-style-type: none"> • Correct balance of inventory • Speed of process from design to printing • Correct quality of print work • Minimize costs to direct mailer 	<ul style="list-style-type: none"> • Speed of production • Correct balance of inventory • Quality • Minimizing costs for direct mailers 	<ul style="list-style-type: none"> • Accuracy • Coordination between print shops, envelope manufacturers and distributors • Minimizing costs for direct mailers • Speed 	<ul style="list-style-type: none"> • Speed of delivery • Accuracy • Minimizing costs for direct mailers • Expertise with foreign postal services

Adapted from Bukszar (2006)

Consumer Printing

This section examines the value chain of commercial printing customers. This is important due to the proportion of CI's business that comes from this sector. An understanding of this industry will allow for an analysis of how it impacts on CI's business. Those areas that CI is directly involved with are clearly indicated throughout the analysis. In general, this segment of the market is very similar to the generic printing value chain. The discussion below is designed to look further into the generic processes and apply them more specifically to the commercial segment.

The consumer printing value chain is based on an end-user placing an order for printed material. This may be anything from company letter head to specifically designed business forms. It is different from direct mail in that the customer is also normally the consumer of the end product. It is geared toward the business-to-business market rather than business-to-consumer, in the vast majority of cases. The value chain is much less complex than that for direct mail advertising as it is virtually all conducted in-house. It is important to remember that due to the fact the customers are the consumers of the end product, they are typically very cost

conscious. The purchase of business forms does not normally add measurably to the bottom line but instead can be seen as something that takes away from profitability. This is a distinction from direct mail advertising where the printed material is the primary means of generating new revenue. The value chain for consumer printing is shown below at Figure 15: The Consumer Printing Value Chain.

Figure 15: The Consumer Printing Value Chain

Sales <i>(CI directly involved)</i>	Design <i>(CI partially involved)</i>	Printing <i>(CI directly involved)</i>	Delivery <i>(CI directly involved)</i>
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Adapted from Bukszar (2006)

Sales: to consumers is a matter of persistence. Consumers, generally businesses, see the need for business printing for internal use but view it as a necessary evil rather than a business enhancing product. New customers are attracted either from new start ups or existing businesses. To attract a new start up requires information on new businesses and a way to reach them effectively. It is better to be early and perhaps to partner with the new firm to help identify and fill its needs. Too late and they will have found (or been found by) another printing firm. If a firm is already in business then it likely has an existing source for its business forms. To obtain this business a printing firm must somehow meet customer needs better than their existing suppliers. Likewise all of the incumbent firms are looking for customers and the sales function requires the ability to “inoculate” customers against encroachment by competitors. This has an effect on competition and relationships must be considered.

Sales KSFs:

1. Ability to locate new customers

2. Ability to identify the correct product
3. Meet customers' needs over time- to "inoculate" them
4. Clear understanding of firm capabilities

Design: Design can be conducted in-house or it can be carried out by the customer.

Normally the customer identifies a need. If they are able to design a printed product to meet that need then they do so and pass the design to the print shop. If they are unable to design it then they can either work with the print shop or bring in an expert to design the product. This is one segment of the value chain that allows for print shops to increase their value to the customer by adding design services if for less than a specialty design firm. In any event the design ultimately makes its way to the print shop and printing plates are created. There are several similarities between this function for consumer printing and that for direct mail. Quality decisions must be made as these affect the raw materials required and the printing process to be used. This is an example of why the sales staff must understand the print shop's capabilities before making promises.

Design KSFs:

1. Designs meet customers' needs
2. Design parameters fit firm capabilities

Printing: Printing for consumers is very similar to printing for direct mailers. The only major difference is that the timeline is not as important for consumers. Where direct mailers need to reach their potential customers quickly, consumers will normally use printed products for internal purposes. There are times where speed is of the essence but price and quality are more important for the consumer. Internally consumed products often add little to the bottom line in

most companies, thus price is normally the driving concern. Quality will vary with the purpose of the printed material. Purely internal forms need not be of especially high quality but firm letterhead may be another matter.

Printing KSFs:

1. Minimize costs for customers.
2. Ensure adequate quality.

Delivery: Delivery is simply the process of getting the finished product to the customer. This can be handled in one of three ways. The first way is for the print shop to deliver the product through internal resources such as a delivery truck. The second way is to use a courier or other delivery service. The third way is for the customer's firm to pick up the finished material through their own resources. The first two methods are most common and depending on the location of the customer, a deliver service may be the only option. Delivery does not add much value to the process but if it drives up costs too much then customers are likely to find another firm. That is why the majority of print shop consumer customers are local. Paper products are heavy and thus delivery costs can increase rapidly depending on the size of the order and distance it has to travel.

Delivery KSFs:

1. Minimize costs or minimize speed for delivery

Consumer printing value chain summary: Consumer printing is a much less complex value chain than that for direct mail. Many of the functions are handled in-house. The KSFs are slightly different as well:

Figure 16: Commercial printing KSFs

Sales (CI directly involved)	Design (CI partially involved)	Printing (CI directly involved)	Delivery (CI directly involved)
<ul style="list-style-type: none"> • Ability to locate new customers • Ability to identify the correct product • Meet customers' needs over time- to "inoculate" them • Clear understanding of firm capabilities 	<ul style="list-style-type: none"> • Designs meet customers' needs • Design parameters fit firm capabilities 	<ul style="list-style-type: none"> • Minimize costs for customers • Ensure adequate quality 	<ul style="list-style-type: none"> • Minimize costs or minimize speed for delivery

Adapted from Bukszar (2006)

APPENDIX B: SHORT CANADA POST LOBBYING PAPER

Introduction

This is an introductory report on the impact of the Canada Post Corporation Act with particular emphasis on section 14. This section, and its interpretation in the courts, has the potential to destroy a Canadian industry. This report will outline some of the pitfalls with this legislation and provide suggested solutions for Parliament.

History of issue

Canada Post has enjoyed a legislated monopoly over postal services in Canada. This is largely due to the fact that postal services are considered so vital to the function of Canadian society that they need to be carefully protected. This important governmental aim is managed through the Canada Post Corporation Act.

Section 14 of the Canada Post Corporation Act, reads as follows (in English):

“14. (1) Subject to section 15, the Corporation has the sole and exclusive privilege of collecting, transmitting and delivering letters to the addressee thereof within Canada.”¹⁸

Section 14 of the Canada Post Corporation Act, reads as follows (in French):

“14. (1) Sous réserve de l'article 15, la Société a, au Canada, le privilège exclusif du relevage et de la transmission des lettres et de leur distribution aux destinataires.”¹⁹

¹⁸ Canada Post Corporation Act. <http://laws.justice.gc.ca/en/C-10/index.html>

¹⁹ *ibid*

These two sections are similar but upon close examination, the French language section gives Canada Post exclusive jurisdiction for delivering all Canadian mail while the English language section limits jurisdiction to mail within Canada. The courts have ruled that the more restrictive French language interpretation is the law. This means that delivery of mail both within and outside of Canada is the exclusive domain of Canada post. In this case mail refers to letters of up to 500 grams. This is problematic.

An industry has developed over the past 30 years. This industry uses private mail distribution, at competitive rates, to overseas destinations. This is not for private individuals but rather, bulk mail by organizations; including the Government of Canada. This industry will cease to exist if the current legislation remains in effect.

A private industry of something like \$150 million²⁰ is not a major contributor to Canada's GDP but it is definitely large enough to deserve consideration. The courts have already ruled and their hands are tied. Private mail distributors are to stop operations. Parliament needs to carefully review the consequences of this legislation and determine if changes are required. This report argues that a careful review should result in change.

Analysis

Introduction

The first step in this analysis is to identify the factors to consider in any decision. The standard factors that government policy should address are:²¹

²⁰ Estimate based on initial industry research. It includes only mail distributors and not other elements of the industry such as printers, envelope makers, letter shops and similar businesses

²¹ Weimer, D. and A. Vining, *Policy Analysis: Concepts and Practice*, Pearson Prentice-Hall, 2005 (fourth edition).

1. Economics: efficiency and impacts on the economy, consumers, industry and government.
2. Fairness or equity: to those affected by the results of any decision.
3. Costs or impacts on revenue: resulting from any decision.
4. Political concerns: arising from any decision.

These factors are considered in some detail below. This is not an exhaustive study but instead a common starting point for considering this problem.

Efficiency

Introduction

Economic efficiency boils down to what course of action will result in the greatest social benefit.²² Economic terms will be used. In this paper, these elements will be reviewed conceptually as a detailed analysis would require a great deal of research to produce precise data for analysis.

Monopoly

Monopoly based industries are less efficient than industries that operate under perfect competition. Regardless of the form that monopoly regulation takes, it is still less efficient. Monopoly pricing is always less efficient than in conditions of oligopoly or perfect competition.

Inefficiencies are normally found within monopolies. These inefficiencies lead to higher costs and surpluses that could be passed to the consumer. Instead, what would otherwise be

²² The economic concepts used here can be found in most microeconomic textbooks

social surplus is diffused within the organization itself as waste. This waste can take many forms. The economic term is x-inefficiency.

The best reason for a monopoly is that there is no way to provide a good or service without one. This is called “natural monopoly” and it normally occurs when there is simply no room in the market for more than one player; likely because the costs of entering the industry are prohibitive.

Mail distribution would have been a natural monopoly at some point in the past when transportation and tracking systems were beyond the reach of private industry. This is no longer the case. Private industry has entered this market in many ways and has done so with no obvious problems when compared with Canada Post.

Competitive pricing is a characteristic of this industry. Canada Post has matched these prices, at times, when competing with private companies. It is suggested that a realistic comparison of cost structures would show that Canada Post is not truly competitive. There must be some economies of scale and scope within Canada Post but the cost structure is almost certainly still higher than private companies operating under conditions of perfect competition.

There may be a need to protect certain aspects of Canada’s mail distribution system but one must be careful of protecting government monopolies from international competition. This is one argument by Canada Post. Canada must be able to compete internationally in all spheres of activity. The globe is a much smaller place than ever before and it is only getting smaller. If Canada Post needs legislation to protect it from lower cost foreign postal services this is another indication of inefficiency. Section 14 goes against the move across the West which been away from centrally planned economies; a bit of an overstatement perhaps but accurate. We cannot hide from the global marketplace. Better to compete and thrive in it.

Summary

In short, Canada Post's monopoly over all mail coming into or going out of Canada is inefficient.

Fairness

Introduction

Fairness or equity is tied to how things are distributed in society. There is no perfect way to distribute anything in society as there is a moral element in judging what is perfect. Setting perfect notions of distribution aside, there are some ways that are better than others. In the case at hand fairness will be discussed in terms of impact on the players in this industry.

Customers

The end consumer of bulk mail distribution is hard to identify. They are normally those who respond to direct mail solicitation. It can be assumed that they respond because of the utility they obtain from responding. They may be faced with a loss of this utility if legislation impacts on the direct mail industry.

Canada Post

Canada Post is an agent of the Crown and thus there is little to be gained from a discussion of fairness. That being said, the following points should be noted:

1. This is a market in which Canada Post does not currently operate. Canada Post has accommodated to the status quo and has suffered no ill effects from it.

2. If Canada Post does retain exclusive jurisdiction then it would have to take steps to meet the new demand. This means that either Canada Post is inefficient and has ~\$150 million in excess distribution capacity or that it will have to add additional capacity.

Private Industry

Economists hate to hear about job losses. They feel that jobs come and go in a marketplace where one is free to find work commensurate with what they have to offer. That is why we will look at job losses as an issue of fairness or equity rather than economics.

The simple fact is that this interpretation of the law will result in job losses. Job losses are understandable when they are the result of market forces. In this case the market is quite capable of supporting private firms. Jobs will be lost due to government regulation. This is difficult to reconcile when the jobs are lost for something that is not a clear gain for Canadians.

Summary

Section 14 will result in unfairness and it should be changed.

Cost

There is little impact on government revenues or expenses by either maintaining the status quo or changing it. There may be some small additional tax revenue by putting everything through Canada Post but since bulk mail companies are taxed on their operations this will be a very limited increase. Government will not have to spend any additional tax funds in any event.

Political concerns

Political concerns are the valid business of politicians and must be considered. The main consideration in this analysis surrounds the concentration of interests. In this case, the private

mail distributors and their industry partners, have a lot to lose. It is likely that they will see it in their best interest to bring resources to bear against Section 14. This is already happening and as the impact of the most recent court decisions begin to be felt, the resistance will only increase. This report is one small part of that resistance. It will only become more organized, aggressive and public as jobs are lost and an industry dies.

Canada Post is the flip side of this equation. It can be expected that this Crown Corporation will resist any effort to move from the status quo. Since Canada Post is taking private companies to court it would seem that their resistance is very real.

Politicians should consider the effects of this battle on the electorate. It is unlikely that Canada Post would receive widespread support from the public. They are relatively well respected but it is difficult to see how shutting down an industry, based on Section 17, will seem like anything but a grab for revenue by a government monopoly. This sort of battle, between Crown Corporations using legislation and private industry using whatever means are at hand, could become a factor in a close election.

Summary

The current iteration of Section 14 will result in resistance.

Alternatives

Introduction

There is no limit to possible alternatives to the current situation. There will be three presented and compared here. These represent very basic solutions and should only be viewed as a start point for discussion.

Status Quo

The status quo is that the current Section 14 remains in force. The French language interpretation is the only interpretation. Canada Post becomes the only entity moving bulk mail within or out of Canada.

Modify French Language Section

The French language section is modified to have the same meaning as the English language section. This leaves the international bulk mail industry intact and represents the situation over the past 30 years.

Modify both French and English Sections

This option opens possibilities to address any legitimate concerns of Canada Post while also allowing private industry to continue. This approach offers the opportunity for a very deliberate and tailored piece of legislation.

Assessment of alternatives

Alternatives are assessed and compared in Appendix 1.

Recommendation

A two stage solution should be taken. First, the French language section should be modified to the English section. This will allow for a continuation of the industry. There are likely other considerations that will come from more detailed study. Secondly, these considerations should be used as the basis for an eventual re-writing of both the French and English versions of Section 14 so as to allow for a full balancing of all considerations. Parliament should move quickly with the adjustment of the French language section and then take time to craft a new section after full consideration.

Conclusion

This is a cursory examination at the conceptual level. A more detailed study by ministerial staff is necessary, with input by all stakeholders, to reach an eventual conclusion. Time is of the essence as industry is already feeling the negative effects of court decisions. Uncertainty is the enemy of enterprise. Parliament should move quickly with a simple modification to existing legislation.

Appendix1: Comparison of legislative alternatives

Factor	Goal	Status Quo	Modify French language section	Draft new section
Economic	Efficiency	Poor	Good	High potential
	Competitiveness	Poor	Good	High potential
Fairness	Minimize negative impacts on individuals	Poor	Good	High potential
Costs/revenues	Limit tax expenses	Nil	Nil	Nil
Political	Concentrated interests	Strong resistance to be expected from industry groups	Possible resistance from Canada Post but can be mitigated by government internally	Potential for all round support

APPENDIX C: CUSTOMER AND SUPPLIER CONCENTRATION

Customer Concentration		
	Revenue	%
Consumer	887,691	43%
Boss-Grant	410,894	20%
IDRS	458,280	22%
Hamada	78,797	4%
Innova	64,854	3%
Misc	167,285	8%
Total	2,067,800	

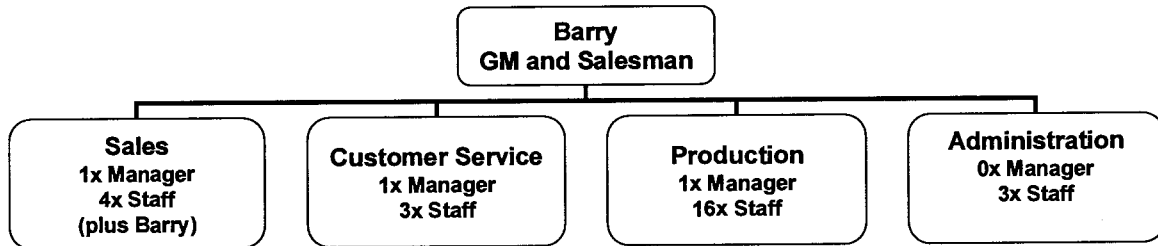
Supplier Concentration		
	Cost	%
Innova	\$ 546,671	66%
Horseshoe Press	\$ 61,607	7%
Cascades	\$ 113,550	14%
Unisource	\$ 98,157	12%
West World	\$ 8,261	1%
Total	828,246	

APPENDIX D: RATIO ANALYSIS

CI's ratios are somewhat skewed. There are some accounting irregularities with regard to classification of long-term and current debt. The 2003-2005 data should only be used by way of understanding how CI was run while part of Innova. The data collected YTD 2006 is also somewhat suspect as it is only based on five months of data. Generally speaking, CI is in an adequate position. The Current Ratio of 1.27 will improve with some minor corrections to accounting and as Barry pays off new equipment that he has purchased. The ROA of 8.4% is somewhat below the benchmark and suggests that a stronger strategy is in order.

	2003	2004	2005	2006 YTD	Benchmark	Assessment
Current Ratio	6.75	7.37	11.26	1.27	2.1	Adequate
Quick Ratio	6.05	6.96	10.56	0.48	1.5	Adequate
Inventory Turn	10.20	15.85	11.16	4.69		Adequate
ROA	9.5%	1.5%	-0.6%	8.4%	10.0%	Improving
CGS/Sales	0.57	0.58	0.57	0.58	0.6	Adequate

APPENDIX E: CI ORGANIZATION CHART



Functions

1. GM: Direct oversight of managers, external relationship maintenance, assignment of targets and goals, general oversight of all firm functions.
2. Sales: Sales, generation of new customers, generation of sales from existing customers.
3. Customer service: Processing of sales orders, generation of new sales from existing customers for basic orders/replenishment, interface with production, inventory and supply chain management, front office reception.
4. Production: Printing, shipping.
5. Administration: Accounting, design/plate, HR.

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