

A STRATEGIC ANALYSIS OF A SMALL FAMILY- OPERATED EMERGENCY REPAIR FACILITY

by

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ABSTRACT

Chanor Truck Repairs Ltd. is a small family-operated business that provides emergency repair services to the motoring public travelling through a highly busy traffic corridor of a small rural community within BC. This paper analyzes the different areas of business the company currently pursues and identifies the towing services as a key area for future growth and financial sustainability.

Focusing on this segment, this paper analyzes the towing service industry/market with a focus on the geographical area in which it currently competes and the company's present situation and performance. The strategic analysis consists of two analytical parts: industry and competitive analysis, and internal analysis. From the strategic analysis and a review of the company's current strategy, a number of key issues facing the firm is identified and evaluated. Finally, recommendations that address key issues, implementation of recommendations and a conclusion are provided.

Keywords: family-operated business, emergency towing service, emergency automotive repairs, towing service, strategic analysis.

DEDICATION

I dedicate this project to my grandparents, aunts, uncles, and dear friends who have been a positive influence in my life. I thank all of you for your love and words of encouragement to persevere, because without your help and support this dream would not have manifested itself into a reality. Thank you.

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GLOSSARY

Chanor	Chanor Truck Repairs Ltd.
HD	Heavy Duty
BCAA	British Columbia Automotive Association
Snoway	Snoway Services
ASC	ASC Automotive Services
R and D	Research and Development
ROE	Return on Equity
ROA	Return on Assets
COGS	Cost of Goods Sold
COGS/365	Days in inventory ratio
AP	Accounts Payable
AR	Accounts Receivable
MIS	Management Information System

1 INTRODUCTION

1.1 Background

Chanor Truck Repairs Ltd. (Chanor) is a small, privately owned and family-operated company based in Cache Creek, BC. The company is in a unique location in that, Cache Creek is the gateway to the north and located at a major cross road junction of highways 99, 97, and 1. This location is a major artery for the 3,000 plus vehicles that pass through this community every day, either travelling north/south or west/east. The company provides emergency towing and repair services to the travelling motorists who pass through Cache Creek. Currently the firm employs three full-time staff in the main operations of the company and one or two part-time staff for the towing services it provides. Revenues in the last fiscal year October 31, 2005 were approximately \$500,000.

Chanor was established in 1969, originally as a partnership with the purpose of creating jobs for the two partners, who for the first ten years of operation provided truck and trailer fleet maintenance to a few local trucking firms. Over the next 25 years, the company added other shop-based repair services and expanded its customer base to include the travelling motorists and the truck transport industry.

In the late 1970s, the towing and repair services for both truck and automotive markets were introduced and a new larger facility was built to accommodate these increased demands from the newly expanded customer base. The partnership dissolved

in 1978 and the company began to operate as a four-member family operation. The growth in both of the truck and automotive repairs and towing services continued until the economic slow down in 1986.

The fiscal years 1986 through 1991 were pivotal in a number of ways. From the external perspective, the economy began a downturn for the automotive transportation sector with the construction of the new Coquihala highway. However, the trucking transportation sector increased to offset the downturn of the automotive transport sector. Internally, the company down-sized the automotive repair and towing services and increased the focus and resources toward providing increased towing and repairs to the growing revenues being generated from the truck transport sector. Also during this down-sizing and financial resource tightening phase, two of the four family members left the company to pursue other personal opportunities.

From 1992 to the present, the automotive transport industry has regained its presence in the market and has been growing steadily along with the truck transport industry. As such, Chanor has been able to remain flexible and managed to adapt to this continued growth while increasing its scope in operations to provide towing and repair services to both the automotive and trucking markets respectively. While the company's overall financial performance has slowly been in recovery, it has worked to reduce its debts and now focuses mainly on equity financing for its future growth.

1.2 Project Overview

The purpose of this project is to analyze the internal and external environment of Chanor Truck Repairs Ltd., and provide strategic recommendations that address the key

issues facing the firm. The goal of these recommendations is to improve the company's market share in the towing services division and the firm's financial sustainability.

This project will review the current situation of the company and the industry in which it operates.

Chapter 1 will describe the background of the company and provide an overview of the project.

Chapter 2 will outline the products and services currently being offered by Chanor Truck Repairs Ltd., and look at the distribution of its customer grouping.

Chapter 3 will analyze the towing service industry/market, provide competitor analysis, and identify the key success factors.

Chapter 4 will review the company's current strategy and recent performance. The project will also analyze how and where Chanor adds value in the value chain.

Chapter 5 will review key issues currently facing the firm.

Chapter 6 will provide strategic recommendations that address key issues currently facing the firm, and implementation recommendations and a conclusion are provided.

2 PRODUCTS AND SERVICES

Chanor is currently comprised of two functional departments: towing services and shop parts and repairs. The breakdown of the revenues earned for the two departments is 49% and 51% respectively. It is important to note that Chanor is the only large repair facility that provides exclusive towing and repair services for the truck transport industry, thus Chanor is a monopolist in this sector of its business due to first mover advantages. In the automotive sector of its business Chanor is one of three firms, an oligopoly, that provides towing and repair services to the automotive transport market. However, Chanor is the only firm that provides the full “one stop shopping experience” for customers in both the automotive and truck transport industry within the local market.

Chanor is somewhat unique in that the company enjoys the full market potential of its products and services in either a booming economy or recession. For instance, in a booming economy people tend to purchase new vehicles and at times these new vehicles breakdown and are required to be towed to the dealership for warranty repairs; Chanor is available to tow their vehicle. In a recession, people tend not to purchase new vehicles and require regular maintenance and repairs to their current vehicles, so whether or not the vehicle needs to be towed into the shop for repairs, Chanor is available to provide the necessary towing and repair service.

There are also seasonal fluctuations that Chanor takes advantage of with the different products and services it offers; during spring and summer months automotive

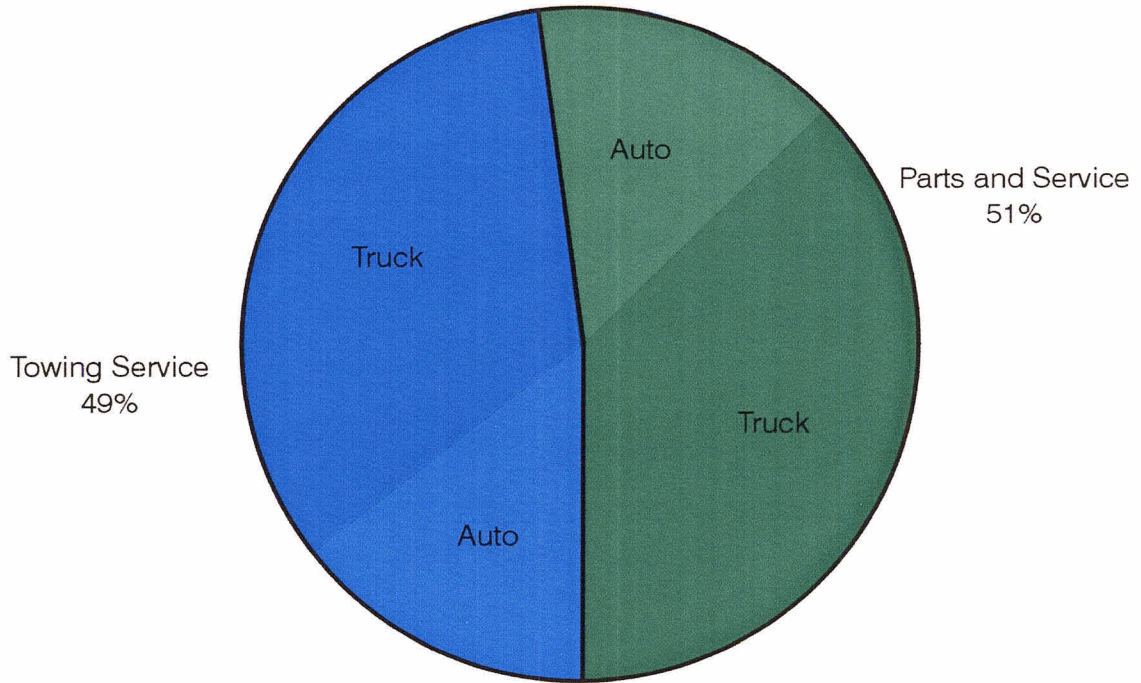
towing and repair services are quite high and low during fall and winter months. Chanor offsets this seasonality with heavy duty truck towing and repairs because these services are in high demand during the fall and winter months and low during the spring and summer months.


Although the automotive towing and repair services began as offshoots of the original truck repair and towing service business, due to customer requests and market demand this has been undoubtedly a good overall investment for Chanor. The balance of this chapter will describe each of the departments, their products and services offerings, and their customer profiles.


Figure 1 shows the relative revenue contribution of the two departments:

Figure 1: Revenue Distribution

2005 Total Revenues \$575,000



Towing Revenue	\$284,000		49%
Auto 25%	\$ 71,000		
H.D. 75%	\$213,000		

Parts and Service	\$291,000		51%
Auto 25%	\$ 73,000		
H.D. 75%	\$218,000		

2.1 Towing Services

2.1.1 Automotive

The automotive towing service department provides emergency towing services 24 hours a day seven days a week to a wide variety of customers, from regular vehicle breakdowns to minor and major accident scene attendance. The automotive towing is somewhat seasonal with the high season being the spring and summer months and the low season being the fall and winter months. The majority of these towing services brings the vehicle back to the repair facility for emergency repairs while a small amount of the tow calls require the vehicle to be towed to other locations within BC, either to the customer's home town or a specific car dealership. Chanor offers the customer a discount on the towing portion of the repair invoice when the customer requests Chanor complete the repairs to the vehicle. The revenues earned can range from between a low tow bill of \$50 to a high tow bill of \$400.

The equipment involved in the current automotive towing service provided is a 5-ton tow truck with a specialized trailer for towing disabled vehicles from vehicle accident locations. The drivers are well experienced in handling all levels of the towing needs of the customer and the operations of the towing equipment. The drivers' wages are based on an hourly wage and a percentage of the total towing invoice.

Due to the wide range of service and the towing and service package offered to the customer, it is difficult to break down the costs for each tow call. Currently automotive towing represents approximately 25% of the total towing services that Chanor provides in this department. In addition, Chanor's share of the local automotive towing

service is currently 40% of the total local market represented by three firms, thus an oligopoly market.

2.1.2 Heavy Duty Truck

The heavy duty (HD) truck towing service department provides emergency towing services 24 hours a day, seven days a week in response to a wide variety of situations, such as regular vehicle breakdowns or minor and major accident scene attendance. HD truck towing is somewhat seasonal with the high season fall and winter months to the low season spring and summer months. The majority of these towing services brings the vehicle back to the repair facility for emergency repairs while a small amount of the tow calls require the vehicle to be towed to other locations within BC, either to the customer's home town or a specific truck dealership. Chanor offers the customer a discount on the towing portion of the repair invoice when the customer requests Chanor complete the repairs to the vehicle; the same offer applies to the automotive towing department. The towing service for the truck transport industry is the major focus for Chanor currently, as the revenues earned can range from between a low tow bill of \$500 to a high tow bill of \$20,000.

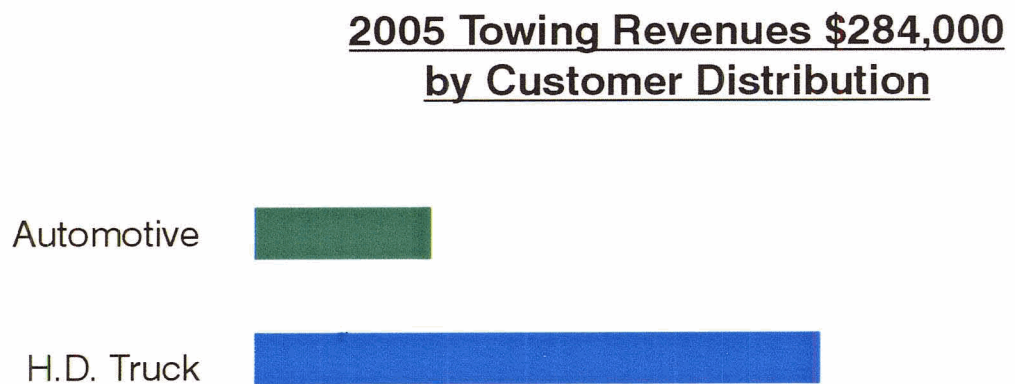
There is a wide variety of specialized towing equipment involved in the HD towing department such as a tandem heavy-duty tow truck with a revolving boom, a tractor and trailer unit, and a tractor unit equipped with a crane. The services this division supplies to the customers range from regular towing of disabled vehicles to high-end accident towing and salvaging of tractor, trailer, and cargo recovery from minor to major accidents. The drivers are well experienced in handling all levels of the towing

needs of the customer and the operations of the towing equipment. The drivers' wages are based on an hourly wage and a percentage of the total towing invoice.

Due to the wide range of services and the towing and service package that is offered to the customers, it is difficult to breakdown the costs for each tow call. Currently HD truck towing represents approximately 75% of the total towing services that Chanor provides in this department. As well, Chanor has a 100% market share, a monopolist in the HD towing service sector for this local market, due to first mover advantage and high capital investments required to compete in this local towing market.

Figure 2 shows the towing revenues by customer distribution.

Figure 2: Towing Revenues by Customer Distribution



2.2 Parts and Repair Services

2.2.1 Automotive

The automotive parts and service department provides emergency repair services during the week Monday through Friday from 8am to 5pm with the occasional after hour repair service. There is a narrow range of customers from the local level; however, the majority of customers served by Chanor come from outside the local market such as travelling motorists passing through Cache Creek who have vehicle breakdowns that range from minor to major repairs required. The automotive repair service is somewhat seasonal with the high season being in the spring and summer months to the low season of the fall and winter months, the same as the automotive towing service. Currently the majority of the automotive repair service comes from the discount towing and repair bundling package that Chanor offers to the customer in the automotive towing service department. The revenues earned in this department can range from a low repair bill of \$50 to a high repair bill of \$5,000.

The parts and services provided to the customer range from routine general maintenance such as oil changes and lube jobs, exhaust and radiator repairs, to major repairs such as brake jobs and clutch and transmission repairs to engine overhauls. There is some high tech diagnostic equipment used by the mechanics during the analysis stage of the automotive repairs. The licensed automotive technicians are well experienced with the tools and equipment required to perform full-scale automotive repairs. The mechanics wages are based on an hourly wage with benefits and overtime rates, which is competitive within the local market.

Once again, due to the wide range of products and services that the automotive repair department offers to the customers it is difficult to breakdown the costs for each repair invoice. Currently, the automotive repair service department represents approximately 25% of the total parts and services that Chanor provides in this department. As well, Chanor's share of the local automotive repair service is approximately 40%, along the same line as the automotive towing services provided, of the total local market represented by three firms in total, an oligopoly market.

2.2.2 Heavy Duty Truck and Trailers

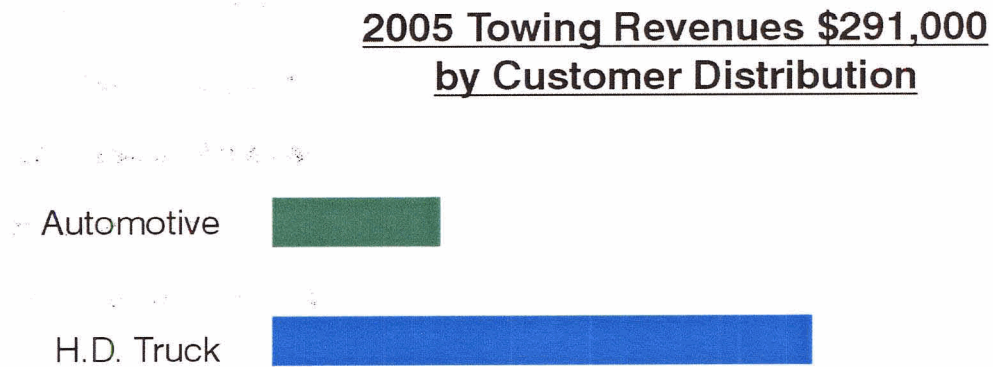
The truck and trailer repair services department is the core competency for Chanor and has been since the start of operations 35 years ago. This department provides emergency repair services 24 hours a day, seven days a week to a wide variety of customers, alongside the HD towing service department. The normal work hours are from Monday through Friday from 8am to 5pm for the local customers; however, there is greater demand for the after hours' repair service in this department. Chanor provides the after hours' repairs to the customers who are on a tight schedule to deliver their load of goods onto its final destination and require immediate repairs. The truck and trailer repair service is a little seasonal, whereas the high season is definitely during the fall and winter months with the spring and summer months a little slower but not by any large degree. The truck and trailer parts and services for the truck transport industry is the major focus for Chanor currently as the revenues earned can range from a low repair bill of \$100 to a high repair bill of \$10,000.

Chanor offers minor and major repair services to the customer that range from minor repairs such as oil changes, motor vehicle inspections, alternators and regular fleet maintenance to major repairs such as brake jobs and clutch and transmission replacements to engine overhauls, similar to the automotive department but on a larger scale. There is some high tech diagnostic equipment used by the mechanics during the analysis stage of the truck repairs. The licensed technicians are well experienced with the tools and equipment required to perform full-scale truck and trailer repairs. The mechanics wages are based on an hourly wage with benefits and overtime rates, which is competitive within the local market.

Once again, due to the wide range of products and services that the truck and trailer repair department offers to customers, it is difficult to breakdown the costs for each repair invoice. Currently, the truck and trailer repair service department represents approximately 75% of the total parts and services that Chanor provides in this department. Chanor also has 100% market share, a monopolist in the truck and trailer parts and service sector for this local market, due to first mover advantage and the high capital investments required to compete in this local truck and trailer repair market.

Figure 3 shows the parts and service revenues by customer distribution.

Figure 3: Parts and Service Revenues by Customer Distribution



2.3 Summary

From the preceding review of the company's different products and services it is clear how Chanor's two functional departments: towing services, and shop parts and repairs work together under one large scale facility, to allow the firm to provide the full "one stop shopping" experience for customers in both the automotive and truck transport industry within the local market. •

3 INDUSTRY MARKET AND COMPETITIVE ANALYSIS

3.1 Towing service industry/market overview

This Chapter will analyze the local market competitive environment in which Chanor competes (100 km North, South, and East of Cache Creek) with a focus on the automotive towing services portion of Chanor's business. There are a number of reasons behind the decision to focus this analysis on the local market:

- the focus of this paper is to review potential growth in the towing services that Chanor provides within this local market,
- the key factors that are critical for success in this industry apply to the market as a whole or as analyzed in a specific geographical area, and
- there is no statistical data available for the towing service industry itself; however, there is statistical data available for the customers to whom it provides services. In 2003, Statistics Canada reported that there were 660,450 trucks and 17.8 million cars registered in Canada and indicated the transportation industry market is in a steady growth stage.¹ In a recent newspaper article, it was reported that there were, on average, 3,000 vehicles per day, 40% of which were trucks that travelled the 192 km stretch of the Fraser Canyon highway between Hope and Cache Creek. Based on the information of this report an estimate

¹ Trucking In Canada, 2004 Statistics Canada Cat. No. 53-222

indicates that there were 1,200 trucks and 1,800 cars travelling through Cache Creek per day in 2004.² This chapter will also review Chanor's competitors, the competitive forces and the key success factors of the industry.

3.2 Economic characteristics

While there are a number of key economic dimensions that help define the competitive nature of industries, this section will only focus on those dimensions that apply to the local market of the towing service industry for which Chanor competes.

3.2.1 Market size

A basic starting point for the analysis of a market is the total sales level within the total market. Knowing the market size helps a firm determine its market share and measure any changes in that share. In this local market, there are three competitors, and Chanor's current market share is estimated to be 40% of the total market. Projecting the total market size based on the knowledge of Chanor's revenues in the automotive towing and current market share, the estimated total size of the market is approximately \$200,000.

3.2.2 Scope of rivalry

The scope of rivalry defines the area in which a firm will focus its competitive efforts to ensure the firm's success. The three firms compete within the local market to a high degree, and there is no inter-provincial or nationally-based rivalry.

² The Province 10/13/06, "B.C.'s Deadliest Highway Now Tamed.", by Glenda Luymes, Fraser Valley Reporter

3.2.3 Market growth rate

Market growth rate is important; in declining situations the strategic choice would be to avoid or disinvest and in increasing situations the strategic choice would be to invest, therefore attracting new entrants into the market. In markets of slow or no growth, the propensity is to increase rivalry amongst existing competitors.

Despite the forecasted increased steady growth in the transportation industry as a whole, the local market growth for the automotive towing service industry is slow and steady. If an existing company widens its scope, or if a new company starts up, its only source of success is at the expense of its competitors.

3.2.4 Life cycle stage

The life cycle stage of the automotive towing services industry is currently growing, as seen with the steady growth reported in market size and market growth. At this stage there is the potential for expansion efforts with relatively low to medium profit earnings still available. However, this is dependent on the size of the geographical region in which one competes.

3.2.5 Number of competitors

The number of competitors in a market will have a big impact on the competitive environment. Currently there are three firms competing for automotive towing services within this local market.

3.2.6 Number of customers

The potential number of customers for automotive towing services within this local market is approximately 2,000 based on the previously cited newspaper article (p. 15) that stated the traffic count travelling through Cache Creek.

3.2.7 Vertical integration

There is currently no vertical integration within the towing industry market.

3.2.8 Differentiation

There is little to differentiate the firms in the towing industry, as the differentiation tends to occur in the additional services that the firms offer combined with the actual towing service offered. A firm can either choose to offer a wider range of services, such as minor and major repairs to the vehicles and generally be higher priced, or stay small and offer lower prices with the focus primarily on providing towing services at higher volumes and lower costs.

3.2.9 Technological innovation

There is little technological innovation in the automotive towing industry other than to some improvements in the primary equipment in operation. The ramp style tow truck is most feasible for towing the newer types of vehicles; however, the older style boom type tow truck is still available to provide the necessary service quite well at present. The technological innovations have primarily been toward the customers to whom the towing industry provides services rather than within the towing industry itself.

3.2.10 Profitability

Labour and the increased intensity of capital investment in equipment and maintenance are high components of costs in generating revenues in this industry. The key to profitability is to minimize these overhead costs and have enough sales volume to overcome them. Currently there is an oligopoly competing for automotive towing services within this local market. The oligopoly and structure of this local market both allow these firms to enjoy average profits even though the ratio of fixed to variable costs is increasing due to the slow growth of this industry.

Table 1: Key Economic Characteristics Summary

Dimensions	Automotive Towing Service Industry
	Local Market
Market Size	\$200,000
Scope of Rivalry	Local
Market Growth	Steady Growth
Life Cycle Stage	Growth
Number of Competitors	3
Vertical Integration	None
Differentiation	Little

3.3 Five factor competitive forces

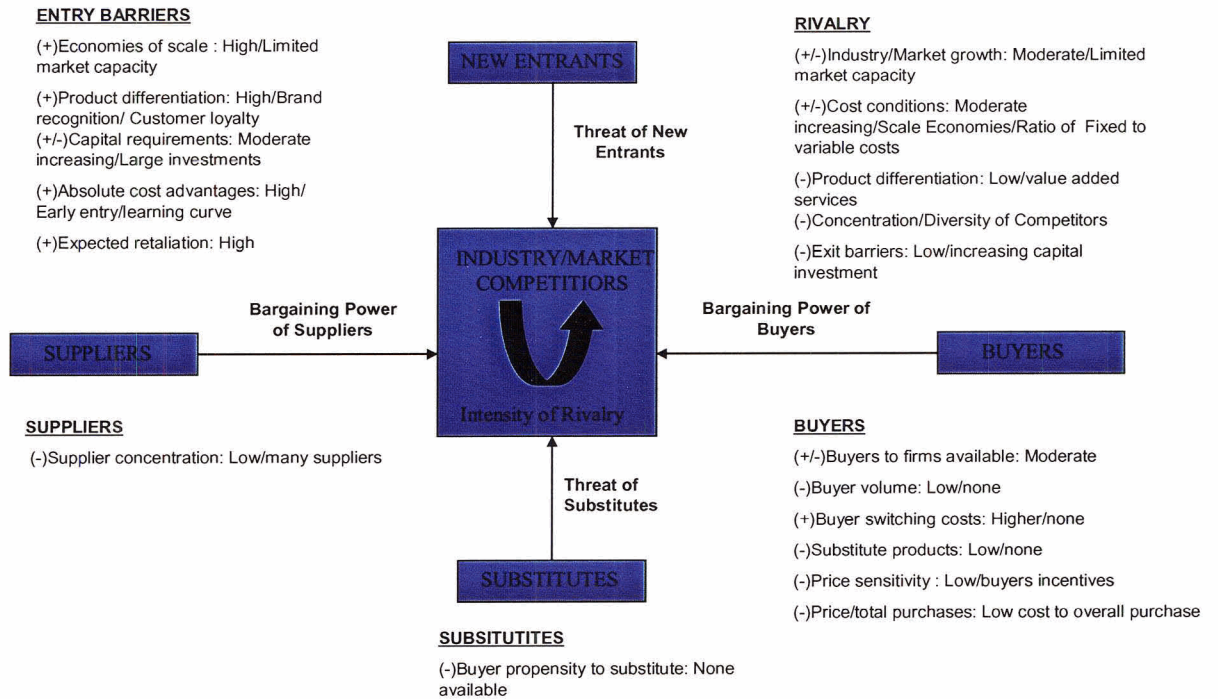
A useful framework for analyzing competition in an industry has been developed by Michael Porter of Harvard University. His method evaluates five sources of competitive pressure that act on firms within an industry. These five “forces” are:

competition from existing firms within the industry; the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; and the bargaining power of buyers. Porter theorizes that the rate of return on invested capital in an industry (relative to the industry's cost of capital), is determined by these five sources of competitive pressure.³ In this section, Porter's Five Forces Model reviews the nature of the competitive environment for which Chanor competes in automotive towing services. These five competitive forces are analyzed to identify and discuss the key variables under each factor and their direction of influence.

³ Competitive Advantage: Creating and sustaining Superior Performance, p. 4.

Table 2 outlines these five competitive forces.

Industry Analysis Local Market: Automotive Towing Service for Chanor Truck Repairs Ltd.



Adapted from Porter, (1979) Industry analysis "Five Factor" template, Simon

Fraser University, BC.

3.3.1 Rivalry among existing competitors

For most industries, competition among the firms within the industry/market is the major determinant of the overall state of competition and the general level of profitability. There are six factors that play an important role in determining the nature and intensity of competition between established firms: concentration; the diversity of competitors; product differentiation; excess capacity; exit barriers; and cost conditions.⁴

Chanor has relatively few direct competitors in this automotive towing service market. There is an oligopoly that dominates the local market, and as such price competition is somewhat restrained through parallelism of pricing decisions. The three competitors are relatively satisfied with their sales growth and present market shares. There are enough revenues being generated that each rarely makes concerted efforts to steal customers away from one another. Each of the firms has comparatively attractive earnings and returns on investments that are bolstered through product and service differentiation. Each operates automotive repair facilities that complement the towing services that it provides giving them economies of scale overall for their operations. The differentiation of products and services, such as price discounts on towing if vehicle repairs are completed in the same shop, helps to offset the higher ratio of fixed costs to variable costs, as the capital investments increase to compete for these competitors. Rivalry in this industry has the potential to become more intensive. This may occur when the number of competitors increases and as competitors become equal in size and capability, or when one of the competitors is dissatisfied with its market position and bolsters its current market shares, a move that may be at the expense of rivals.

⁴ Grant, Robert M., Contemporary Strategy Analysis 5th Edition, p. 78

In summary, the rivalry within this market is currently low to moderate. However, there is the potential for higher rivalry because of limited capacity in the current market due to slow but steady growth.

3.3.2 Bargaining power of buyers

The strength of buying power that firms face from their customers depends on two sets of factors: buyers' price sensitivity and relative bargaining power.⁵

The buyers in this market are travellers who require automotive towing services due to vehicle breakdowns. They are focused on continuing to their destinations as quickly as possible, so time is of the essence for these buyers and price is secondary if they are satisfied with the quick response to call out. Normally, the cost of the towing service is relatively a lower cost portion of their total services required and there is the option of the discount for the towing and repair bundling package offered to them. However, within this bundling package and the option of a "one stop shopping" experience there is the element of service quality that needs to be obtained, so that the buyers are satisfied that "they are getting more bang for their buck." They rarely have volume purchases due to a usually one-time use. The relative buying power has the potential of increasing, as there are three firms to choose from if one wishes to switch due to the lack of switching costs attached to this industry. However, there are no other substitutes available to the buyer, which can also lower his or her buying power.

In summary, the purchasing power of the buyer is low to moderate currently within this local market for the automotive towing service industry.

⁵ Grant, Robert M., Contemporary Strategy Analysis 5th Edition, p. 81

3.3.3 Threat of substitutes

If there are close substitutes for a product, then there is a limit to the price that customers are willing to pay and any increase in price will cause some customers to switch towards substitutes. The extent to which the threat of substitutes constrains industry pricing depends upon the following two factors: the propensity of buyers to substitute and the price-performance characteristics of substitutes.⁶

There is no propensity for buyers to purchase substitutes for the automotive towing service industry/market, as there are currently no substitutes available.

3.3.4 Bargaining power of suppliers

Analysis of the determinants of relative power between the producers in an industry and their suppliers is precisely analogous to an analysis of the relationship between producers and their buyers. As Grant explains, the only difference is that now the firms in the industry are buyers and the producers of inputs are suppliers. The key issues are the ease with which the firms in the industry can switch between different input suppliers and the relative bargaining power of each party.⁷

The bargaining power of suppliers is not an issue in this industry. All of the automotive towing service competitors purchase general materials and supplies from a variety of distributors. These distributors have lots of competition and therefore they have very little power.

⁶ Grant, Robert M., *Contemporary Strategy Analysis* 5th Edition, p. 74

⁷ Grant, Robert M., *Contemporary Strategy Analysis* 5th Edition, p. 83

3.3.5 Barriers to entry

Grant continues that the potential for new entrants in an industry is primarily related to the following principal sources of barriers to entry: capital requirements; economies of scale; cost advantages; product differentiation; governmental and legal barriers; and retaliation.⁸ In this section, only those that apply to Chanor's automotive towing service industry/market will be reviewed.

There are many barriers to entry for this industry. The capital costs of becoming established in this industry are quite large; for example, one towing unit could cost upwards of \$200,000. With such high start up costs, one would require a larger market share to meet such large-scale operations in order to compete efficiently within this industry/market. One would also have to compete with the three large firms currently dominating this market with not only the towing services it provides but also with the differentiated products and services these firms are currently offering. The current firms have been in the market for many years, and have successfully gained customer loyalty through brand recognition of the towing service auto clubs to which they belong, such as British Columbia Automotive Association (BCAA). The incumbent firms also have cost advantages over the new entrant due to their early market entrance and the learning experience curves that face this industry such as the quickest and safest way to hook up and tow newer market vehicles. As well, there is a reasonable expectation of high retaliation within this market due to the elevated capital investment of the current competitors to maintain their current market positions. Possible retaliations would be aggressive price-cutting and increased advertising and promotion.

⁸ Grant, Robert M., Contemporary Strategy Analysis 5th Edition, p. 76

There are low to moderate levels of threats to entry into this market; either moderate in that a new entrant could start in this industry with access to self-financing large enough to enter on a small scale and acceptance of high unit costs, or entered on a large scale and accepted the risk of underutilized capacity.

3.3.6 Five-factor competitive forces summary

Competitive forces that work against the automotive towing service industry/ market are:

- the potential of increased rivalry among competitors,
- the potential of a new entrant,
- moderate levels of buyer power

Currently the rivalry among current competitors is low but there is the potential for future increases due to the high costs to maintain the facilities in which they operate and to continue to maintain enough revenues to ensure their return on the capital invested.

Again, the potential of a new entrant is currently low but there is the chance that a new competitor could enter this market. Capital investment may not be a deterrent for a high risk-taking individual or group of individuals. The current competitors would retaliate quite highly with cutthroat pricing and this would have a negative effect on the local market as a whole. Only the strongest would survive and, over time, the weakest would ultimately leave the marketplace.

Currently the buyer power is low; however, if new businesses entered the market this level of power could increase, as the buyer could play pricing games amongst the competitors to receive lower prices.

These potential increasingly negative forces would have rippling effects that could be felt throughout the market. This could lead to an over-populated market with fierce competitors and powerful buyers who would be able to negotiate aggressively for lower prices. Conversely, the competitive forces working in favour of the competitors are the low power of suppliers and the absence of substitutes.

The net result of these potentially competitive forces is a market in which competitors would only be able to achieve below-to-average profits possibly resulting in an “unattractive” market due to the less-than-average profit margins and higher levels of competition.

Current market conditions are “attractive” due to average to above-average profit margins and low to moderate competition. The current competitors in this market enjoy average to above-average profits, so it is in their best interests to keep this current level of competition and maintain their market positions. Table 3 below outlines Porter’s Five Forces Summary.

Table 3: Porter’s Five Forces Summary

COMPETITIVE FORCE	LEVEL
Rivalry between competitors	Low to Moderate
Power of buyers	Low to moderate
Threat of substitute products	None
Power of suppliers	Low
Threat of entrants	Low to moderate
Overall Competitive Force	Low to Moderate

3.4 Competitor analysis

Currently, of the three companies both Chanor and ASC offer a broad range of automotive towing services and automotive parts and repair services within this local market. The inclusive competitor analysis is due to outside competitor forces and the differentiated products and services for which these companies compete, as well as the automotive towing services to ensure their continued success. One of the automotive towing companies wants to exit the market due to retirement and wishes to sell his business.

The two levels of competition are:

- Narrow focused very small-sized shop with one or two employees that generally focus on automotive towing as its primary revenue source with little emphasis on automotive repairs.
- Narrow focused medium-sized shop with three employees that generally focus on tire sales and services as its primary revenue source with very little emphasis on automotive repairs.
- Broad focused medium-sized shop with two or three employees that provides a wider range of services, such as automotive towing services and automotive parts and repairs, and differentiates on the premise of this range and higher quality service.

3.4.1 Narrow focus shops

There are two companies at this level, one very small shop and one medium-sized shop that both operate within Cache Creek: Snoway Services and Junction Tire

Snoway Services

Snoway Services is Chanor's closest competitor in the automotive towing services area of its business. Although this is the smallest repair facility in Cache Creek, it currently holds the major share of the automotive towing services in the local market. Snoway Services is a family owned and operated company that has been in business for 25 years and currently has two employees including the owner. There is no detailed financial information available for this company. However, it is estimated that its revenues range from \$30,000 to \$50,000 per year in automotive repairs and from \$100,000 to \$200,000 per year in automotive towing services.

The shop is physically quite small, has two small bays, generally no office or sales staff, and very little investment in equipment to conduct full-scale automotive repairs. Consequently, it has very low overhead costs and can charge much lower rates than the larger shops that compete in the market for the automotive repairs.

Snoway focuses on automotive towing as its primary revenue source with little emphasis on automotive repairs, thus the lower emphasis on the shop rates. Snoway has two small towing units that supply services to BCAA member customers within the local market area, and with this guaranteed customer base the firm has been able to establish and maintain leadership in the automotive towing services in Cache Creek.

At present, the owner of Snoway hopes to retire, is looking to exit the market and wishes to sell his business. Although the business seems to be profitable, the only physical assets the firm has to offer in the sale are two tow trucks and goodwill. The BCAA contract, a major component of Snoway's successful market domination, cannot be sold and there is no guarantee that the purchaser will be able to obtain the BCAA contract, as BCAA has quite an extensive list of requirements that a service provider needs to meet in order to obtain the contract. Snoway's strategy is one that is narrowly focused on the automotive towing service and competes based on low cost and high volume sales.

Junction Tire

Junction Tire is a mid-sized firm that has a narrow focus on tire sales and services and is currently not a direct competitor of Chanor's. It is uncertain as to when Junction Tire could become a direct competitor because it could expand to include automotive towing services with the purchase of Snoway's business. However, the BCAA contract, a major component of Snoway's successful market domination, cannot be sold and there is no guarantee that the purchaser will be able to obtain this contract, as BCAA has quite an extensive list of requirements that a service provider needs to meet in order to be approved. The forecasted chance of this purchase is quite slim due to the current financial performance of Junction Tire, and the firm is currently undergoing some financial difficulties in maintaining its current operations in the tire sales and services sector.

Junction Tire is a family owned and operated company with three employees including the owner, and has been in operation for four years. There is no detailed

financial information available for this company, although it is estimated that its revenues are between \$100,000 to \$200,000 per year in the tire sales and repair services.

Junction Tire leases the shop it operates and is physically mid-sized with two bays. Junction Tire has higher capital investments in the equipment that is required to perform the tire sales and services that it provides. Consequently, it has very high overhead costs and needs to continue its narrow focus on maintaining its current position in the market that it serves.

Junction Tire's strategy is one that is narrowly focused on tire sales and repairs and competes based on low cost and high volume sales.

3.4.2 Diversified shop

There is one medium sized company at this level that operates within Cache Creek: ASC Automotive Services (ASC) and is Chanor's closest competitor in the automotive towing services and automotive parts and repairs service areas of its business. ASC is a medium sized repair facility in Cache Creek and currently holds the smallest share of the automotive towing services in the local market. ASC could increase its market share in the automotive towing services with the purchase of Snoway's business. However, the BCAA contract, a major component of Snoway's successful market domination, cannot be sold and there is no guarantee that the purchaser will be able to obtain this, as BCAA has quite an extensive list of requirements that a service provider needs to meet in order to obtain the contract. The forecasted chance of this purchase is low, due to the current financial performance of ASC; the firm is currently undergoing some financial difficulties in maintaining its current operation in the automotive towing

services and automotive parts and repairs service areas of its business. In addition, ASC has tried unsuccessfully to obtain the BCAA contract because the firm could not meet the strict requirements requested by BCAA.

ASC is a family owned and operated company that has been in business for 15 years. It currently employs two or three employees including the owner. There is no detailed financial information available for this company; estimated revenues range from \$200,000 to \$300,000 per year in automotive repairs and from \$20,000 to \$30,000 per year in automotive towing services.

ASC is currently purchasing the shop it operates, is physically mid-sized with two bays, and has very high capital investments in the equipment that is required to conduct full-scale automotive repairs in the automotive parts and repairs services that it provides. Consequently, it has very high overhead costs and needs to continue its focus on maintaining its current position in the market that it serves.

ASC focuses on automotive parts and repairs as its primary revenue source with some minor emphasis on automotive towing services. ASC has higher shop rates to sustain its current market position in the automotive parts and repairs services sector. ASC has one very old towing unit, which is mainly used for the internal use of the shop to bring in customers' vehicles for repair. The combination of their focus on automotive repairs and the lack of towing equipment required to compete in the towing service section of its business explains the firm's smallest market share that it currently holds within the automotive towing service sector in the local market.

ASC's strategy is one that is focused on trying to provide a broader service to the automotive towing service and automotive parts and repairs market, and competes based on differentiation of a wider range of services and higher quality. This broad differentiation strategy requires higher prices to sustain this focus. ASC needs to focus on providing superior performance in order to maintain this type of strategy, which the firm presently seems to be struggling to provide to its customers.

3.5 Key success factors

Three factors are critical for the success of a firm competing in the automotive towing service industry/market: service response, differentiation or broad range of quality services, and relative price.

In the automotive towing service industry, the customers are travelling motorists who require the towing service for a specific reason; their vehicle needs to be towed to a location for emergency repairs so they can continue to their final destination as quickly as possible. These factors are critical for the success of a firm competing within the towing service regardless of whether the firm is analyzed at industry or market levels, and the major factor in this industry is the number of competitors within the market for which it competes.

3.5.1 Service response

Service response time is one of the most important factors. The customer requires fast reliable service due to the nature that their vehicle is in need of repair as soon as possible and that the vehicle location is on the highway. This means that they may call for a tow truck any time of the day or night and any day of the week. The towing service

company must be able to respond and dispatch out the appropriate sized equipment required to meet the needs of the customer as quickly as possible. Firms in this industry will typically offer their services 24 hours a day 7 days a week.

3.5.2 Differentiation or Broad range of quality services

Typically, firms in the towing service market will seek growth in expanding their services. This usually takes the form of horizontal expansion into such areas of vehicle repairs. The customer in this market are requiring emergency towing and repair services and perceive the “one-stop” shopping experience as invaluable. The customer’s first question is how quickly can we dispatch a tow truck and repair the vehicle? Essentially, for the towing service they have a captive market opportunity if they can operate a cost efficient repair facility and only offer the services that combine effective differentiation with low costs. Normally in this market, the price sensitivity is low as long as the price is relative to the quality of services the firm provides and meets the need for fast efficient repairs to get the customer on his/her way as quickly as possible. The customers in this market are extremely time sensitive rather than price sensitive.

Essentially, for the towing service they have a captive market opportunity if they can operate a cost efficient repair facility and only offer the services that combine effective differentiation with low costs. Firms in this market also offer their customers bundling type packages such as discounts on their towing if the firm also performs the necessary repairs to the customers vehicle.

3.5.3 Relative price

Where a towing service firm offers repair services the price is usually secondary to the customer. As such, the price sensitivity is low if the price is relative to the quality of services the firm provides and meets the need for fast efficient repairs to get the customer on his/her way as quickly as possible. The customers in this market are extremely time sensitive rather than price sensitive.

Where there is no repair service offered the customer may or may not value low pricing as high on its list of demands. For the firms that do not offer vehicle repairs their focus is operating at low cost, higher volumes and more tow calls, and therefore will compete by offering lower prices.

3.6 Summary

The automotive towing services industry for this local market analysis enjoys average to above average profits due to the low number of competitors in the market. Currently there is low to moderate rivalry amongst competitors, moderate to high entry barriers, and the buyers have low power. The competitors' strategic focus is either on employing a low price and high volume or on differentiation and the provision of a broad range of services.

Overall, the key success factors would also have the same impact on the industry as a whole. The towing services industry in a larger market would have low margins and higher competition, not an attractive market unless operating revenues can be increased through increased capital utilization and reducing operating expenses using technology processes to reduce internal cost controls.

4 INTERNAL ANALYSIS

4.1 Overview

This chapter will focus on the internal situation at Chanor Truck Repairs Ltd. Included is an analysis of the company's current strategy and the degree to which the company has produced a strategic fit, that is, how well do the business factors that define the company complement its strategy to differentiate? A critical review of the activities the company performs within its value chain will provide a clear understanding of the company's strengths and weaknesses. The paper will also review how well the company is positioned relative to its direct competitors in the local market, and its position to successfully deliver its strategy.

4.2 Current strategy

Over the last number of years, Chanor's strategy has remained somewhat unclear, as the overall company strategy has been to broaden the scope of its products and services. The focus is still on providing emergency towing and repair services to both automotive and truck transport markets and to customers who are willing to pay a premium price for a broad range of quality services. However, the firm continues to operate without a formal written business plan, vision, or mission statement.

4.3 Strategic fit

The remainder of this chapter will review Chanor's current strategy, which seems to be one of differentiation because the company's goal remains to be one of providing services that customers will value at a premium price.

The critical factor in offering a differentiated strategy is that the cost to differentiate the services provided does not exceed the premium the customer is willing to pay. This key principle needs to be maintained as a reference in evaluating the activities that the firm completes. The analysis will establish to what extent the firm has produced strategic fit between its generic strategy and the activities it performs. A generic strategies matrix has been utilized to complete the strategic fit analysis. The matrix compares the strategic positions of either cost based or differentiation strategies for a number of business factors. Ideally, a company's strategy is concentrated at either end of the scale, be it cost based, or differentiation. A strategy that is in the middle can confuse both company staff and customers about what the company stands for and what it delivers, and is often described as a strategy "stuck in the middle".⁹

An analysis for Chanor has been completed by establishing the company's strategic position for each of the different business factors, and assessing whether or not it makes sense given the company's overall strategy. Rating the company's position for each of the factors provides a quantitative assessment of the company's strategic fit. Factors are assessed a score of zero for a perfect fit with a cost based strategy, and a score

⁹ Competitive Advantage: Creating and sustaining Superior Performance, p. 17.

of 10, for a perfect fit with a differentiation strategy. A couple of additional items to consider when assessing the overall strategic fit a firm has achieved include:

- Weighting the importance of each of the factors given a specific industry, some factors will be much more important in one industry than in another.
- Comparing a firm's activity in each of the factors on a relative scale rather than an absolute one – it is practical to consider the firm's activity in relation to other firms in the industry.¹⁰

The assessment of Chanor's position for each of the business factors that illustrates the company's strategic fit is provided in Table 4 on page 38. The highlighted areas are the assessment of the company's position for each of the factors. The assessment indicates how well the company is positioned for each of the factors to offer either a cost based or a differentiated strategy. While the assessment of the company's score for each of the factors is subjective, it provides a general understanding of whether the firm's activities complement or oppose the company's overall strategy.

¹⁰ Bukszar, (April/June, 2006), Lecture Notes

Table 4: Chanor's Strategic Fit Matrix

		Chanor's Strategic Fit Matrix										
Factor	Cost Based <i>Low Cost/Adequate Quality</i>					Differentiation <i>High Quality/Adequate Cost</i>					Strategic Fit	
	0	1	2	3	4	5	6	7	8	9	10	SCORE
Product Strategy	Rapid Follower					Innovator					3	
R&D Expenses	Low R&D					High R&D					3	
Structure	Centralized					Decentralized					7	
Decision Making	Less Autonomy					Autonomy					7	
Manufacturing	Economies of Scale					Economies of Scope/Flexible					9	
Labour	Mass Production					Highly Skilled/Flexible					7	
Marketing	Comparative/Push					High Cost/Pioneering/Pull					2	
Risk Profile	Low-Risk					High-Risk					3	
Capital Structure	Leveraged					Conservative					7	

Adapted from Bukszar, (May 2006), Lecture Notes, Simon Fraser University, Vancouver, B.C.

4.3.1 Product Strategy

In Chanor's towing service department the firm provides a service that is homogenous, as the services of one towing company are not very different from the next. Although the transportation industry is growing the towing services industry keeps pace at a much slower but steady growth. As such, the methods used to provide the towing services have become somewhat standardized and many tow operators appear to offer identical services. To offer a "one stop shopping" experience, Chanor exploits the firm's first mover advantage by offering a broad range of full scale major and minor repair services to both automotive and truck markets. Chanor was the first towing company to offer such services to both automotive and truck transport markets in the firm's large-scale facility. Although others have tried to copy this strategy they have been

unsuccessful, and Chanor remains the only firm in the market with this strategy and the range of capacities to deliver on it.

Chanor has also introduced the use of specialized towing equipment to provide higher quality and efficiency in the salvaging of severely disabled vehicles from highway accident scenes. As an example, the company uses a tow truck with a rotating boom and crane truck to remove and load the debris on to a specialized ramp style tow trailer; these units are dispatched to the scene at the same time, thus reducing the estimated time of arrival for the police call outs. This adds value to the customer in the sense of reducing the time of highway closure for accident clean up and reducing the risk of further accidents from occurring. Prior to the use of this equipment, a tow truck would be dispatched out to the scene. Then both a loader-excavator and dump truck would be dispatched to clean up the accident scene, a very time-consuming and costly process.

Chanor has established a reputation with customers for providing quality and superior performance to the transport market with a larger emphasis towards the trucking transport market and a lower emphasis towards the automotive transport market. Chanor's willingness to provide this quality service fits well with its strategy to differentiate from competitors; however, this quality service must be maintained in both markets to support fully the differentiation strategy.

4.3.2 R and D Expense

Due to the standardization of services in the towing industry, there is a lower emphasis in regard to Research and Development (R and D) expenses for this industry.

Chanor's R and D as a percentage of sales is small, but in relation to many of its competitors the firm is somewhat of a leader.

Chanor has many examples of investing capital to build or modify towing equipment and adding new products and services, to complete the full-scale towing and repair services that the firm offers. The company's willingness to invest in unproven concepts in an effort to produce a competitive advantage is consistent with the company's product strategy to be a dominant leader in this market.

4.3.3 Organizational Structure

Prior to the economic slow down in the late 1980s, Chanor had no defined departments or organizational structure. All employees reported more or less directly to the owner; more recently, however, efforts were made to establish some departmental responsibilities. The focus has been on establishing and formalizing internal procedures and policies, although the continued lack of external strategy and guidance has resulted in minimal effectiveness in this procedure.

Currently the organizational structure of Chanor is decentralized. As an example, functions such as service options and human resources are handled at the job level. Although staff members do not operate from a written set of general guidelines, most issues that arise are solved in a manner that makes sense in each given situation. This decentralized structure is important to maintain if the firm expects its staff to continue to be innovative. The structure that exists at Chanor is appropriate for a differentiation strategy to be successful. Having said that, Chanor needs to introduce some written

general guidelines as a base from which its staff can draw to ensure quality services are provided.

4.3.4 Decision Making

Decision-making occurs for the majority of the time at the job level at Chanor's. Most of the jobs do not have access to one of the managers and as a result the employees are required to make the best decision they can given the time and the circumstances involved. An example of the firm supporting this practice is that no one has been fired for making a poor operational decision, even if it had resulted in a negative impact on the company.

The higher level of autonomy that employees have at Chanor's complements the firm's decentralized structure and is consistent with a strategy to differentiate. Once again, Chanor would benefit by introducing written guidelines as mentioned in the previous section and reinforcing activities to recognize initiative demonstrated by employees, in an effort to reaffirm this aspect of the company's culture. To encourage employees to think outside of the box and innovate, the firm could give financial rewards to employees that suggest innovative ideas that prove to be successful for the firm.

4.3.5 Operations

Chanor's operations have mostly focused on economies of scope, rather than economies of scale, which is consistent with the differentiation strategy. As an example, the company has focused on offering a full line of services in towing and repairs for both the truck and automotive markets. While most of the company's competitors concentrate their efforts on one aspect, such as towing services only, minor repairs or full-service

repairs to the automotive market only, Chanor offers all of these activities to both the truck and automotive markets. To achieve this, the firm has acquired a diverse fleet of equipment, a wide range of shop tools and equipment, and a large full-scale facility. Although offering different equipment and services improves flexibility, it also increases the cost of operations. However, a diverse fleet of equipment and full-scale facility are necessary to provide flexible operations, which are essential if the firm expects to be able to charge a premium.

The company's ability to offer flexibility to its customers was compromised in the late 1980s due to financial constraints and downsizing, but it has made a full recovery since then, and the firm's ability to differentiate its operations from its competitors has been re-established. Currently the company's operations complement its overall strategy.

4.3.6 Labour

Chanor's labour complements the operations the company offers quite well, as the loyal and dedicated employees have a wide range of expertise that allow the company to successfully complete a large scope of services. However, during downsizing in the late 1980s the firm lost a number of its labour expertise because it could not afford to keep them employed. Since recovering from this economic downturn the firm has struggled to find and keep knowledgeable and experienced staff, which is a growing concern for all businesses operating in small rural communities. This is an area on which Chanor must work, and as it continues to grow and prosper may be successful in attracting and maintaining labour expertise through additional training and incentive offers that will make it more feasible for new employees to join the team.

4.3.7 Marketing

Chanor has experienced a trend towards lower marketing expenditures during the past few years caused by the economic downturn of the late 1980s where the company's strategy changed to emphasize greater focus on company debt reduction and downsizing. Consequently, marketing to generate sales received a lower priority.

Chanor initially had a general marketing plan that suited the differentiation strategy very well, with plenty of direct attention placed on the customer, communicating what the company was offering, and why it was a better choice than the competition. This strategy allowed the company to charge a premium for its quality broad range services. However, when the company's strategy changed to include major cost reductions the marketing plan took a lower priority in the financial budget. Chanor has now realized this error in judgment and recognizes the need to refocus its current strategy to include a formal written marketing plan to ensure its future growth.

4.3.8 Risk Profile

Chanor's risk profile reflects the company's product strategy and the industry's lower emphasis on R and D. Although the rating is low, Chanor maintains its solid leadership amongst the firm's competitors and fits with the current differentiator strategy for this market.

The company has a history of capitalizing on its first mover advantage and maintaining its strong leadership position in the local market as being one of developing new ideas and successfully providing a broad range of quality services. The firm is able to charge significant premiums for the products and services it provides due to first

mover advantage, large full-scale facility efficiency and the synergies between the activities performed. As well, pricing is based on what the market will bear rather than on what it must be to outperform the competition, and in this case the market seems to value the “one stop shopping” experience and is willing to pay the higher premium commanded.

4.3.9 Capital Structure

Due to the financial crisis of the late 1980s, Chanor has been able to greatly improve its current strong capital structure. Although it took a major downturn in the market economy and the potential opportunity of destroying the company before Chanor took decisive action to restore the firm’s financial position, this restructuring was successful.

Chanor’s current strong capital structure is a good fit to deploy a differentiator strategy. This given the fact that capital structure is a key factor for a strategy that a company can deploy and that a differentiator strategy requires high capital to be successful. However, Chanor could benefit by introducing systems for further cost controls and capitalizing on the present synergies between the current activities within the operations.

4.3.10 Strategic Fit Summary

Chanor was somewhat successful in competing in the towing and repair industry for many years deploying a strategy to be a differentiator. However, its high unfocused financing structure and inefficient internal cost controls along with a depressed market in the late 1980s almost bankrupted the company. The shift in strategic focus from the

uncontrolled rapid growth strategy to a greater focus on company debt reduction and downsizing while still offering quality services to both the truck and auto transport markets was an absolute necessity for Chanor's survival. The new differentiator strategy has been successful in the sense that the company was able to make a slow, but full recovery from the near financial disasters of the economic slowdown. The firm was able to make the commitment of paying off the total outstanding company debts while still providing quality services to the customers.

The current strategic fit analysis completed at this time in the company's history presents a picture that is relatively confusing, which is not surprising given the fact that the company still continues to operate without a formal written business plan, vision, or mission statement. Some of the factors provide a picture of a firm well suited to be a differentiator and other factors look more like a firm with a cost based strategy, resulting in a final picture of an overall strategy that appears to be between cost-based and differentiation.

While this "stuck in the middle" strategy is normally a dangerous position for a company, this seems not to be the case for Chanor, likely due at least in part to the scattered competition. The shift in strategic focus to a best-cost provider seems to be the best strategic fit for the firm, given Chanor's strength in its capital structure and continued steady growth in the transportation industry and the willingness of the customer to pay a higher premium price for the "one stop shopping" experience of a broad range of quality services. There is still more room for improvement to be successful in the best-cost provider strategy that Chanor would need to address. These include greater internal cost controls and a marketing plan. Probably the most significant

single factor would be demonstrable quality controls and a warrantee on services provided, including especially meeting timelines for delivery.

4.4 Value Chain

One technique to analyze the capabilities and resources of a firm is to create a value chain. Every firm is a collection of activities performed to design, produce, market, deliver, and support its product.¹¹ Porter's basic value chain identifies five primary activities and three support activities as follows:

Primary activities:

- "Inbound logistics" – receiving, purchasing, inventory holding, etc.
- Operations or production activities
- "Outbound logistics" – warehousing and distribution
- Sales and marketing
- Service

Support activities:

- Planning, finance, MIS, legal services
- Research and development

¹¹ Competitive Advantage: Creating and sustaining Superior Performance, p. 36.

- Human resources development and management

The purpose of the value chain analysis is to provide an understanding of the activities the firm completes in the towing and repair industry to generate value. The objective of establishing where the firm creates value is to create an understanding of the focus of the firm's strategy to produce a sustainable competitive advantage. The activities the firm is recognized for doing well relative to competitors are considered the firm's core competencies and should be the basis on which future strategies are developed.

In addition to identifying the company's core competencies and developing future strategies around them, the value chain analysis is also useful for identifying activities that are important to a successful competitive advantage in the industry in general. For these activities, it is important for the company to either have or develop a competency in order to compete successfully in the industry. Alternatively, if the company cannot achieve a competency in these activities it must recognize the disadvantage this presents and develop a strategy that will effectively offset the disadvantage.¹²

Understanding the relationship between the activities the company and its suppliers complete, can assist in the development of a sustainable competitive advantage.

¹² Bukszar, (April/June, 2006), Lecture Notes

This is because highlighting the relationships between activities identifies where potential benefits can be achieved for all parties.¹³

The value chain analysis for Chanor has been completed utilizing Porter's generic value chain model. The purpose of the value chain analysis is to answer questions such as:

- What is it that the organization does well, and how can the firm sell what it does well to others?
- What is the firm's core competency, what is the level of the firm's sophistication, and is the firm at the leading edge of the industry?
- What are the primary activities of the firm, which ones have demand, and how do they add value?
- Does the firm complete legacy activities that serve no strategic advantage? If so, can they be outsourced?
- How do the various activities the firm completes combine to create a competitive advantage?¹⁴

Through the process of completing the value chain analysis, the firm is essentially making a make or buy decision at each activity in the value chain in using the firms' competencies and operational utilization as terms of reference for the decision. There are

¹³ Competitive Advantage: Creating and sustaining Superior Performance, p. 34.

¹⁴ Bukszar, (April/June, 2006), Lecture Notes

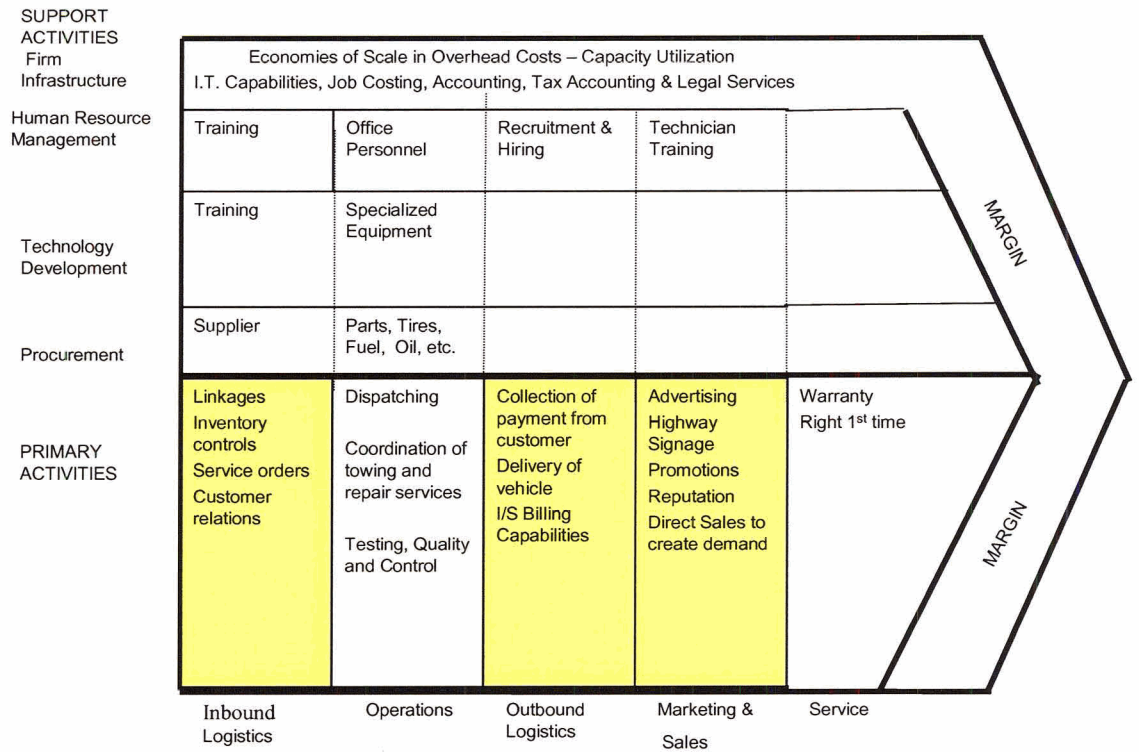
benefits and costs in the decisions to outsource or to complete the activities internally.

The key to making good decisions in regards to the make or buy decision is to understand the significance each activity represents in maintaining a sustainable competitive advantage for the company and to ensure its overall success.

Chanor's value chain has been adapted from Porter's generic value chain and is presented in Table 5 on page (50). The chart identifies the primary and support activities in the company's value chain. The main focus of this analysis will be on the highlighted sections, which are the company's main areas of weaknesses that require immediate attention. The other sections will be discussed but not in as much detail, as these are the strengths of the firm.

Table 5: Chanor's Value Chain

Chanor's Value Chain



Adapted from Porter (1985), Bukszar (April/June 2006) Lecture notes,

SFU, Kamloops, BC

4.4.1 Primary Activities

Primary activities are the activities a firm completes which involve the physical creation of the product or the activities undertaken to deliver a service, the sale and transfer of it to the buyer, and after sales service.¹⁵ Porter has provided five categories, which include: inbound logistics, operations, outbound logistics, marketing and sales, and service.

Inbound Logistics

Inbound logistics involve the activities to prepare for the operations of the towing and repair services. This includes linkages for synergies, receiving and storage of inventory, service orders, and customer relations.

Parts and Material Inventory

Chanor handles a fair amount of parts purchases for both on-hand inventory and specific orders for the completion of the repairs of a job work order in process. The firm carries approximately \$45,000 of inventory on hand and uses the old paper and pen inventory cards to record the flow of inventory. Currently, there is no formal purchase order system in place and employees are able to purchase whatever equipment or supplies they feel they require. Staff have not exploited this to their personal gain, but there has been overspending in some areas due to duplication and lack of regard for total spending.

¹⁵ Competitive Advantage: Creating and sustaining Superior Performance, p. 39

This is an area of concern for the company, as this department requires increased monitoring and cost control procedures to be in place. The hiring of a parts person for this department is a possible solution and a new computerized system that can manage the inventory, service orders and customer billing information would be highly beneficial to allow the full potential of the synergies linking all departments together in a cost-efficient manner. This is an area that the firm needs to maintain internally and should not be outsourced.

Service Orders and Customer Relations

Service orders and customer relations are the key area of the firm's operations; this is where the first contact is made with the customer. In a service type organization it is extremely important to build strong customer relations, as this is one of the major factors of promoting shop services and repeat business that cannot be exploited solely through advertising. The employees are fast, efficient, friendly, courteous, and knowledgeable and take pride in serving the customers to the best of their ability. The customers are satisfied with the capabilities of the firm and show this with loyalty and repeat business, and by word-of-mouth advertising in referring the firm's quality services to other potential customers.

Currently, the employees are responsible for each job they undertake, from meeting with the customer and diagnosing the problem to fulfilling job order requirements. At present, the employees are very capable of handling this department; however, there are also a few concerns. As seen in the past, when shop services increase there are potential problems in acquiring customer billing information because, again, all

work orders are completed by pen and paper. Job scheduling is written up on a job board and, here again, there are unnecessary duplications of paper handling.

One possible solution is to hire a service writer who would take on the responsibility of job order scheduling, gather customer billing information and be the liaison between customer and technicians in the shop repair department. There is a significant need for the management information system to capture the synergies of the company's operations, as previously mentioned. This is an area that the firm needs to maintain internally as it is the heart of the operation, and outsourcing here is out of the question.

Operations

Operations involve activities that turn the inputs into the products or services that the firm sells to the market. The key operational primary activities are the actual coordination and dispatch of the tow trucks, drivers, and the actual services provided to complete the necessary repairs of the customer's vehicle. This is the core competence of the company where the diagnostic testing and quality controls are operated by the highly skilled technicians performing the required services promptly and efficiently. The employees share knowledge and information between the operations activities, and the firm capitalizes on the synergies that this provides to its overall success.

Tow operations require a competency in dispatching that allows a quick response to the customer's needs, whether it is a routine tow call or an emergency service request. Each tow call that Chanor receives requires dispatching of the equipment and the driver to the specific job locations. Typically, dispatching is performed manually by a

dispatcher who must be aware, at all times, of the location of all the tow equipment and the estimated time of arrival at the customer's location. Chanor is able to meet all of the customer's needs by also offering repair services that the customer may need and the firm's goal is to get the customer back in operation as quickly and efficiently as possible, even if this means having to tow the customer to the dealership for repairs. The firm's slogan is "if we can't fix it, we will tow it". Customers appreciate and value this service – a "one stop shopping" experience - and the guarantee that every effort will be made to ensure they will be mobile as quickly as possible.

Chanor has exploited its first mover advantage with a large-scale efficient facility, a large diverse fleet of equipment and capitalizing on the synergies of the activities for both the towing and repairs services as seen in the \$.5 mil revenues generated by the firm. The first mover advantage and large capital investments give the firm a competitive advantage because they limit the number of direct competitors, thereby contributing to the firm's differentiation strategy. Chanor can complete activities at a significant cost advantage because of its dispatching forté and highly trained technicians. These competencies provide benefits to the firm and customers through excellent service and quick response times.

Chanor's ability to achieve high equipment and facility utilization is a competitive advantage for the company. Chanor is highly recognized as the market leader for the truck division, with the potential of also becoming the market leader for the automotive division. The firm, however, could benefit once again with an automated management information system, as reported in earlier sections of the analysis.

Outbound Logistics

Outbound logistics focus on the activities required to store and distribute the products and services produced by the firm. The activities associated with this component of the value chain for Chanor are the collection of payment from the customers, and delivery of the vehicle to the customer, either through pick up or via towing the vehicle to the final destination.

Chanor's outbound logistics mainly revolve around the gathering of information for accounting to ensure all billing is captured and that further repair services can be reported and used for customer follow up. The information that is gathered here is used extensively by the support activities associated with the firm's infrastructure. Currently all of the information is gathered through the same paper and pen process, a very time consuming and unnecessary duplication of paper work.

The collection of payment from the customers is an area on which the firm needs to focus more attention, in order to reduce accounts receivables. Chanor also needs to excel in the information systems for gathering and reporting of information and apply it towards direct sales to customers to create future demands. Once again, the management information system and hiring of the service writer mentioned earlier would be of great benefit to the firm by capturing all billings information and payments and operations for return visits. This would also provide a competitive advantage, as none of the competitors captures the information from its operations to use for management decisions. This area needs to be completed internally and should not be outsourced.

Marketing And Sales

Chanor had a competency in sales and marketing prior to the financial crisis in the late 1980s. Here, the firm decreased efforts in part of the downsizing and cost reductions to try to reduce the company debts, and although the firm has made a full recovery and is currently in a strong financial position, marketing efforts still continue to lag.

In the past the firm promoted quality services through a direct sales approach, such as a yearly letter to its customer base, promoting specials it was currently offering. These direct sales allowed the company to communicate to the customers what the company offered and why it was better than its competitors. While Chanor had adequate highway signage to advertise its services, the signs required refurbishing. They were taken down and never replaced; the result of another area of budget cuts.

Chanor does not have a specific marketing plan, and must develop a realistic marketing plan to aggressively pursue future growth in the automotive market. The firm can capitalize on the synergies of promoting its quality services and reputation to both markets at the same time with the same costs.

The sales and marketing activities for Chanor need improvement and would benefit from a marketing plan focused on replacing the highway signage and the direct sales approach. This plan could be promoted through the management information system and service writer mentioned in earlier sections.

Service

The service section of the value chain for Chanor represents the firm's warranty department. Chanor excels in this area, is highly recognized for providing quality services, and believes in getting the job done right the first time. If it does not get it right the first time, it goes the extra mile to ensure the completion of quality warranty repairs the second time around.

Chanor again capitalizes on its synergies with the towing service to pick up the customer's vehicle, which is taken to the shop for repair at no additional cost to the customer. The firm is able to absorb the towing expense as part of doing business and maintaining its reputation. The in-house towing expense is much lower than if the firm had to outsource for this service.

4.4.2 Support Activities

Support activities simply support the company's primary activities. While support activities are associated with overhead, they can be one of the company's competitive advantages.

Procurement

Procurement is the process of securing the necessary resources the company requires to ensure completion of the services that the firm provides in its operations. Chanor's major procurements involve the purchasing of parts that the company uses to complete repair jobs. Parts purchases account for a significant percentage of the company's cost, as seen in the inventory holdings of \$45,000.

Chanor has high competency in this activity, regardless of the pen and paper process it uses for inventory control procedures. The company focuses great efforts to acquire the best possible prices for the parts it purchases and capitalizes on the firm's purchasing power over its suppliers. There are many suppliers and great price competition amongst them to gain sales.

Chanor again capitalizes on its synergies for the purchase discounts that are provided between the towing and repair service departments. For example, tires for equipment are purchased at a discount price from the suppliers who provide the repair department with regular tire sales.

Chanor could benefit here again from the previously stated management information system and parts person because the firm has competency in this area and should continue to complete this activity internally.

Technology Development

Chanor has a competency in this activity relating to the fact that the firm keeps pace and at times leads technology developments in the industry. Chanor either purchases new technologies in tools and equipment or builds and manufactures specialized equipment for its own use to provide quality service performance. However, the company could benefit from purchasing technologies that will provide better management information systems for all of the departments. The difficulty the firm faces in this area is its uniqueness in all of the services that it provides to the market. As seen in the industry analysis, there is no specific area in which the company's services fall under one umbrella.

Chanor needs to continue its efforts to find a general-purpose management information system to provide the majority of its requirements, or seek a professional company that can build a system specific to Chanor's needs. The benefits of such a system will far exceed the costs, as this will give the company substantial competitive advantages over the competitors through capitalizing on the competencies and synergies of the firm mentioned in earlier sections.

Human Resources Management

Human resources management is the activity of managing the company's employees. The main activities involved here include, recruiting, hiring, training, and structuring wage and benefit programs.

Chanor's human resources function is mainly focused toward the training, recruitment and hiring of staff. Chanor is competent in this activity, as the company provides above-average wages and exceptional training opportunities to the employees to upgrade their skills and competence. For example, technicians receive ongoing training in the new technologies of the diagnostic equipment that they use in the shop.

Chanor could once again benefit from the management information system to capture information that would provide a basis for employee incentives. These incentives could be based either on overall internal cost reductions or the employee's ability to continue to innovate.

Firm Infrastructure

Firm infrastructure provides the foundation that enables the general management of the company. Activities include accounting, job costing, information technology capabilities, business planning, legal, and general overhead expenditures.

Chanor has developed an internal competency to provide the service to the company's information needs to manage the business on a daily, monthly, and yearly basis. The company has the ability to excel in the planning of future budgets and financial analysis to assess the company's profitability and to manage functions such as the company's trade accounts and cash flow. However, a tailor-made management information system would be very beneficial to the firm for a number of reasons, as earlier cited. Another benefit to this department would be frequent financial analysis reporting. At present, the financial analyses are provided on an ad hoc basis, as the time to prepare the information from the pen and pencil system is very time consuming. The unnecessary duplication of the paper work processes from other departments would also be eliminated, as would the time it takes to prepare such documentation. At present, this is a very costly process and the company needs to seriously focus efforts in correcting this problem in order to fully capitalize on the economies of scope and synergies on which the current strategy is based in order to consolidate and reduce the overhead expenses. The administration department also monitors collections and processes all of the trade and receivable accounts, and the company's entire payroll.

The company out-sources to appropriate firms in the area all the professional services required by the firm, such as legal services, and the company's year-end

accounting and tax planning. There is no competitive advantage for the firm to complete these activities internally.

4.4.3 Value Chain Summary

The above analysis of Chanor's value chain has identified the activities that are crucial to the company's ability to form and sustain a competitive advantage in the towing and repair service industry. The analysis also identified core competencies, which will also help in the formulation of future strategies for the company.

As well, the analysis has shown that the firm is capable of capitalizing on the economies of scope and synergies between the firm's activities. The firm has been successful financially by providing quality broad-range services at a higher premium price through fully utilizing its large-scale facility, the sharing and transferring of skills and expertise of employees, and the reduction of its overall costs.

The value chain analysis also showed that Chanor could further improve its capabilities by purchasing a tailor-made management information system. This system captures all of the billings and operations information to provide further internal cost reductions, increased sales and marketing efficiencies, and collections processing procedures. The hiring of additional staff for the parts department, the service order department, and possibly for the administration department would be in order if the company were to be successful in its pursuit of further growth opportunities.

4.5 Financial performance

The financial performance analysis of Chanor will include:

- a review of the firm's overall sales revenues for 2001 to 2005
- the firm's current profitability and efficiency in generating a profit
- a review of the firm's financial leverage and liquidity position for 2004 and 2005.

The analysis will provide insights into the firms' current performance, which will also be beneficial in formulating future strategies. Due to a lack of some information and only small private firms with no financial data to make comparisons, this analysis will focus on Chanor's internal financial performance for the past two years, as the performance has been consistent in the past. At present, the firm has no long-term debt, a strong cash position and continues to finance all capital expenses out of operating revenues.

Financial statements provide the basic information to assess a company's current financial position; however, due to large amounts of data in the financial statements, only the key accounts are described in this analysis. Table 6 on page 64 shows the Partial Financial Statement: Balance Sheet Accounts for 2004 and 2005, and Table 7 on page 65 shows the Partial Financial Income Statement Accounts for 2004 and 2005.

This paper will focus on a few key financial ratios that will shed some light on four questions concerning Chanor's current financial performance:

- How profitable is Chanor?
- How productively is Chanor using its assets? Are there any signs that the assets are not being used efficiently?
- How liquid is Chanor? Can it easily get its hands on cash if needed in an emergency?
- How much has the company borrowed? Is the amount of debt likely to result in financial distress?

Currently, Chanor's local market share of the automotive towing services and parts and repair services is 40%, and 100% for HD truck towing services and parts and repair services. Chanor's shop labour rate for the automotive market is \$60/hour, which is equal to its local competitors, and lower than British Columbia's industry average of \$76.88 and \$100.37.¹⁶ The HD truck shop labour rate is \$80.00/hour, which is lower than the Kamloops, BC shop rates of \$100.00/hour. The nearest HD truck repair facilities, which are not Chanor's competitors, are located in Kamloops, BC approximately 100 km east of Cache Creek.

Figure 4 on page 64 shows Chanor's overall company revenues from 2001 to 2005. The company has been able to achieve increased sales revenues during 2002 to 2005 due to focusing increased efforts in providing a wide range of quality services to include both automotive and truck transport markets, unlike previously when the major focus was toward the truck market. Although this chart indicates a great improvement in

¹⁶ Canadian Technician, Canadian Independent Automotive Shop Survey – June 2006, October 26, 2006, p. 18

revenues from 2001, there are some areas for improvement in the efficiency control ratios, which will be discussed further in the analysis.

Figure 4: Company Revenues By Year

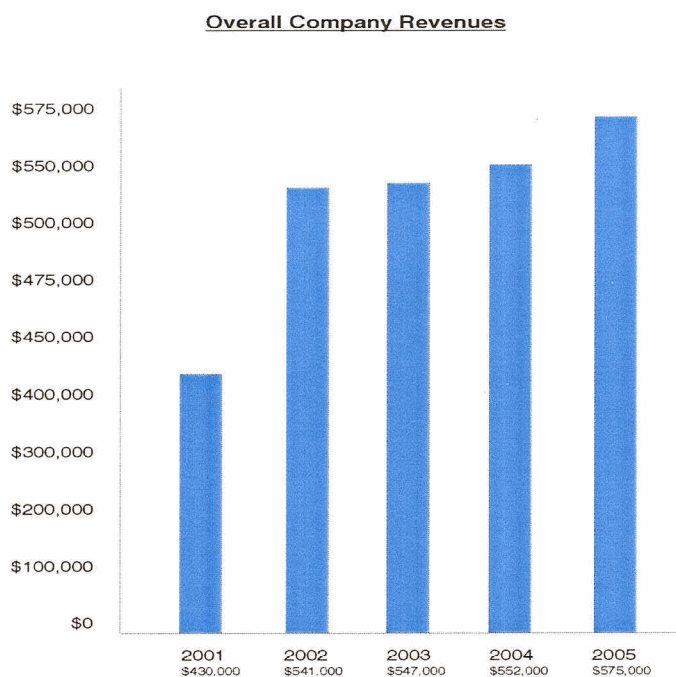


Table 6: Partial Financial Statement: Balance Sheet Accounts for 2004 and 2005.

Balance Sheet Accounts	2004 \$	2005 \$
Cash	44,000	37,000
Accounts Receivable	73,000	97,000
Inventory	45,000	45,000
Current Assets	158,000	177,000
Total Assets	286,000	295,000
Accounts Payable	33,000	35,000
Current Liabilities	68,000	59,000
Total Liabilities	68,000	59,000
Total Equity	245,000	278,000

Table 7: Partial Financial Income Statement Accounts for 2004 and 2005

Income Statement Accounts	2004 \$	2005 \$
Sales Revenues	552,000	575,000
Cost of Goods Sold (COGS)	327,000	345,000
Gross Profit	224,000	230,000
Gen. & Admin. Expenses	171,000	174,000
Net Income	32,000	33,000

4.5.1 Profitability Analysis

The Return on Equity (ROE), Return on Assets (ROA), Asset Turn Over, Gross Margin and Net Profit Margin ratios will be reviewed below in sequence.

The key indicator used to measure financial performance is the Return on Equity ratio, which is defined as Net Income/Total Equity. The ROE is a measure of the efficiency with which the company employs the owners' investment capital. It is a measure of earnings per dollar of invested capital, or equivalently, of the percentage return to owners on their investment. In short, it measures bang per buck for the owners.¹⁷

Normally, in a competitive industry, firms can expect to earn only their cost of capital. The firms earning more than the cost of capital are achieving price premiums, while those firms that are earning a low return may face serious consequences that need immediate attention. To increase the ROE, the firm would need to control three levers:

¹⁷ Robert C. Higgins, Analysis for Financial Management, p. 36

the profit margin, by increasing the earnings out of each dollar of sales; the asset turnover rate, by increasing sales generated from each dollar of assets employed; and the financial leverage, controlling the amount of equity used to finance the assets of the firm.

Chanor's ROE for 2004 and 2005 is shown below in Table 8. The average ROE for the company is 13%, which is a good return on investment for the owner given the fact that the bank's interest rates for investments have only been averaging approximately 5% over the same timeframe. Having said that, the company could increase its profit margins thereby increasing the owners' rate of return. This is discussed further in this analysis. While the rate of return is good, there could be increased efficiency to reduce the internal costs of operations, as discussed in previous sections.

Table 8: Return on Equity Ratio for 2004 and 2005.

Return on Equity	2004 \$	2005 \$
Net Income	32,000	33,000
Total Equity	245,000	278,000
R.O.E.	.13	.12
Average R.O.E.		13%

The Return on Assets ratio measures the performance of the firm by the ratio of Net Income to Total Assets. It measures both the efficiency with which a company allocates and manages its resources, and the profit as a percentage of the money that is provided by both the owners and creditors. Although a high profit margin and a high asset turnover are great for the firm, this could attract considerable competition to enter the market.

Chanor's ROA for 2004 and 2005 are shown below in Table 9. The average ROA for the company is 11%, which is a good return on investment by its net assets and strongly supports its broad range differentiated strategy. The company has shown efficiency in the management of its resources and has earned \$0.11 for each \$1.00 tied up in the business, and strongly supports its broad range differentiated strategy.

Table 9: Return on Assets Ratio for 2004 and 2005.

Return on Assets	2004 \$	2005 \$
Net Income	32,000	33,000
Total Assets	286,000	295,000
R.O.A.	.11	.11
Average R.O.A.		11%

The profit margin measures the fraction of each dollar of sales that trickles down through income statements to profits. This ratio is particularly important to operating managers because it reflects the company's pricing strategy and its ability to control operating costs. The profit margin and asset turnover tend to vary inversely. Companies with high profit margins tend to have low asset returns, and vice versa. Companies such as Chanor, that add significant value in their quality broad range of services, can demand high profit margins. However, because adding value usually requires many assets, these same firms tend to have lower asset returns.¹⁸ It is also important to distinguish between variable costs and fixed costs when analyzing the profitability of a company, because variable costs change when the sales vary, while fixed costs remain constant. As such, companies with high fixed costs will produce major profit declines when sales decline.

¹⁸ Robert C. Higgins, *Analysis for Financial Management*, p. 38

The Gross Margin is defined as Gross Profit to Sales, where gross profit equals net sales less cost of goods sold. The gross margin thus allows us to distinguish between fixed and variable costs. The gross margin measures the percentage of every sales dollar that contributes to the fixed costs and profits.

Chanor's Gross Margin ratio for 2004 and 2005 are shown below in Table 10. The current Gross Margin for the company is 40%, which means that Chanor has shown good efficiency in operations to have \$0.40 of every \$1.00 earned in sales available to pay for fixed costs and to add to profits. As stated in earlier sections, Chanor could further benefit in its efficiency by controlling the internal costs of operations.

Table 10: Gross Margin Ratio for 2004 and 2005.

Gross Margin	2004 \$	2005 \$
Gross Profit	224,000	230,000
Sales Revenues	552,000	575,000
Gross Margin	.41	.40
Gross Margin		40%

Net Profit Margin defined as Net Income to Sales, summarizes a company's income statement performance by showing the net profit per dollar of sales.

Chanor's Net Profit Margin ratio for 2004 and 2005 is shown in Table 11 on page 69. The company's Current Net Profit Margin is 6%, which is good for a service-type industry. A combination of high asset turnover and high margins equals a best performance indicator. Chanor has a combination of high asset turnover rate and high

profit margins, which indicates that the company has increased its overall performance and strongly supports its broad range differentiated strategy.

Table 11: Net Profit Margin Ratio for 2004 and 2005.

Net Profit Margin	2004 \$	2005 \$
Net Income	32,000	33,000
Sales Revenues	552,000	575,000
Net Profit Margin	.06	.06
Net Profit Margin		6%

Asset Turn Over ratio, also known as the Sales-to-Assets ratio, is defined as Sales/Assets, where the assets are measured as the sum of the current and fixed assets. The Asset Turn Over ratio summarizes the company's management of the asset side of its balance sheet by showing the resources required to support sales. It shows what assets are needed to operate and how hard the firm's assets are being put to use. The nature of a company's products and its competitive strategy strongly influence asset turnover. When product technology is similar among competitors, control of assets is often the margin between success and failure.¹⁹

Chanor's Asset Turn Over ratio for 2004 and 2005 are shown in Table 12 on page 70. The company's average Asset Turn Over was 1.98, which is a good indication of performance. For each dollar of investment, Chanor generates on average \$1.98 of sales, a higher figure than its competitors. The company uses its assets more efficiently,

¹⁹ Robert C. Higgins, Analysis for Financial Management, p. 40

capitalizing on its synergies and high capital utilization of its resources, such as the sharing and transferring of knowledge and skills, labour, large-scale facility, and diverse fleet of equipment. High profit margins and high asset turnover rates are indicators of best increased performance; Chanor has achieved increased overall financial performance and strongly supports its broad range differentiated strategy.

Table 12: Asset Turn Over Ratio for 2004 and 2005.

Asset Turn Over Ratio	2004 \$	2005 \$
Sales Revenues	552,000	575,000
Total Assets	286,000	295,000
Asset Turn Over	1.93	1.95
Average Asset Turn Over		1.98

4.5.2 Efficiency Control Analysis

In this section, the following control ratios: Inventory Turn Over, Collection Period, Payables Period, and Day's Sales in Cash ratios, are reviewed in sequence. Control ratios show how efficiently the firm is using its investment in current and fixed assets. Understanding the investment in fixed assets and working capital that is needed to support Chanor's current output may help to uncover any inconsistencies in the company's plans.

Control of current assets is critical to the success of a company to achieve increased efficiency in its operations. Current assets, especially accounts receivable and inventory, have unique properties, e.g., if something goes wrong such as a delay in customer payment, a company's investment in current assets could balloon very rapidly. Current assets may also become a source of cash during downturns in business. If sales

decline, the company's investment in accounts receivable and inventory should decline as well, thereby freeing up cash for other uses.²⁰

The Inventory Turn Over ratio is defined as $\text{COGS}/\text{Inventory}$. The Inventory Turn Over ratio measures the number of times items in inventory turn over per year. The Days in Inventory ratio is defined as $(\text{COGS}/365)/\text{Inventory}$ and measures the speed with which a company turns over its inventory as measured by the number of days that a firm takes to sell its goods.

Chanor's Inventory Turn Over ratio for 2004 and 2005 is shown below in Table 13. The Company turns over items in its inventory 7.67 times per year and a typical inventory item sits for approximately 48 days before being sold. These appear to be appropriate measures for Chanor at this time and anything less than five times per year would indicate issues, such as too many resources invested in slow moving inventory.

Table 13: Inventory Turn Over Ratio for 2004 and 2005.

Inventory Turn Over Ratio	2004 \$	2005 \$
COGS	327,000	345,000
Inventory	45,000	45,000
Inventory Turn Over Times/Year	7.27	7.67
Inventory Turn Over: Days		48 Days

The Collection Period is defined as $\text{Accounts Receivable}/(\text{Sales}/365)$. The Collection Period measures how quickly customers pay their bills. There are a couple of reasons why a company's collection period would be high: one reason might be that

²⁰ Robert C. Higgins, Analysis for Financial Management, p. 41

(unlike its competitors) the firm may have a conscious policy of offering attractive terms to lure business, thus giving the company a competitive advantage, but only if the company has excess cash resources. The other reason would be the credit manager may be not be proactive in pursuing slow players to pay their bills.

Chanor's Collection Period for 2004 and 2005 is shown below in Table 14.

The company's collection period is on average 54 days, which means there is a 54-day lag between time of sale and receipt of payment. This is an area of weakness in Chanor and it needs to focus attention on achieving a collection period of 45 days. The weakness is due to slow processing of service work order delays, which causes a chain reaction in slower mail out deliveries and slower receipt of payments. This needs to be improved and the management information system could help the company achieve the 45 day collection period target and also better support its broad range differentiated strategy.

Table 14: Collection Period Ratio for 2004 and 2005.

Collection Period Ratio	2004 \$	2005 \$
Accounts Receivable	73,000	97,000
Sales Revenues	552,000	575,000
Collection Period Days	48.28	61.59
Average Collection Period Days		54 Days

The Payables Period is defined as $\text{Accounts Payable}/(\text{COGS}/365)$. The Payables Period measures the length of time the firm pays its suppliers for purchases. The lag time is between purchases and the payment of goods received.

Chanor's Payables Period ratio for 2004 and 2005 is shown below in Table 15. The company's Payable Period is 37 days, which means there is a 37-day lag between the time of purchasing goods and payment. This is another weak area for Chanor and it should capitalize on the 60-day credit terms that its suppliers offer. The company pays its bills quicker than it collects from its own customers and this scenario needs to be reversed.

Table 15: Payables Period Ratio for 2004 and 2005.

Payables Period Ratio	2004 \$	2005 \$
Accounts Payable	33,000	35,000
COGS	327,000	345,000
Payables Period Days	36.83	37.04
Payables Period Days		37 Days

The Day's Sales in Cash is defined as $\text{Cash}/(\text{Sales}/365)$. This measures the amount of day's worth of sales in cash on hand and shows the amount of readily available cash on hand to pay bills.

Chanor's Day's Sales in Cash for 2004 and 2005 are shown in Table 16 on page 74. The company's Day's Sales in Cash is 23 days' worth of cash on hand that is readily available to its bills, a positive measure that shows the firm's flexibility. This is good, as it shows that Chanor has enough cash on hand for emergencies, and is not an excessive amount for the company to be holding in cash. The excess amount of cash on hand allows Chanor to extend credit terms to its customers, which is a competitive advantage because the firm's competitors cannot offer these extended terms.

Table 16: Day's Sales in Cash Ratio for 2004 and 2005.

Day's Sales in Cash	2004 \$	2005 \$
Cash	44,000	37,000
Sales Revenues	552,000	575,000
Day's Sales in Cash Ratio	29.10	23.49
Average Day's Sales in Cash		23 Days

4.5.3 Financial Leverage and Liquidity Analysis

In this final section, the Debt-to-Assets, Debt-to-Equity, Current and the Quick Acid-Test Ratios are reviewed in sequence.

When a company borrows money for operations, it promises to make a series of payments. Its shareholders receive only the remaining funds after the debt holders have been paid; the debt is then said to create financial leverage. In extreme cases due to difficult times, a company may be unable to pay its debts.

Financial leverage is usually measured by the ratio of Long-Term Debt to Total Long-Term Capital. It summarizes the management of the liabilities side of the balance sheet by showing the amount of Equity used to finance the company's assets. Currently, Chanor does not have any Long-Term Debt and therefore a low financial leverage. This is a good sign, as it shows that the company has access to a higher borrowing capacity.

The Debt-to-Assets ratio is defined as Total Liabilities to Total Assets. The Debt-to-Assets ratio measures the amount of money that came from creditors to pay for the company's assets.

The Debt-to-Assets ratio for 2004 and 2005 is shown below in Table 17.

Chanor's Debt -to-Assets ratio is 20%, which means that money to pay for 20% of the company's net assets comes from creditors of one type or another. This is good, as the company has a higher value than a high leveraged company, shows that it has more readily available cash on hand and strongly supports its broad range differentiated strategy. The day's sales in cash analysis stated previously confirm the higher amount of readily available cash on hand.

Table 17: Debt-to-Assets Ratio for 2004 and 2005.

Debt-to-Assets Ratio	2004 \$	2005 \$
Total Liabilities	68,000	59,000
Total Assets	286,000	295,000
Debt-to-Assets Ratio	.24	.20
Debt-to-Assets Ratio		20%

The Debt-to-Equity ratio is defined as Total Liabilities to Total Equity. The Debt-to-Equity ratio shows the amount of money from creditors compared to shareholders, to pay for the company's assets.

Chanor's Debt-to-Equity ratio for 2004 and 2005 is shown in Table 18 on page 76. The Debt-to-Equity ratio for the company shows that the creditors supplied \$0.21 for every \$1.00 supplied by shareholders to pay for the firms assets. Chanor has a good Long-Term Capital structure at present and strongly supports its broad range differentiated strategy.

Table 18: Debt-to-Equity Ratio for 2004 and 2005.

Debt-to-Equity Ratio	2004 \$	2005 \$
Total Liabilities	68,000	59,000
Total Equity	245,000	278,000
Debt-to-Equity Ratio	.28	.21
Debt-to-Equity Ratio		\$0.21

If Chanor is borrowing for a short period or perhaps has some large bills coming up for payment, the company wants to ensure that it has the necessary cash when needed. Creditors also watch a firm's liquidity, for they want to receive payments owing to them, as they know that illiquid firms are more likely to fail and default on their debts. Liquidity ratios are important to back up a company's successful strategy.

Current Ratio is defined as Current Assets to Current Liabilities and measures the margin of liquidity a company has available to pay its debts. Rapid decreases in the current ratio require prompt attention as they signify trouble, and management must rectify the situation as quickly as possible. The standard industry benchmark is a 2 to 1 margin of liquidity debt capacity.

Chanor's Current Ratio for 2004 and 2005 is shown in Table 19 on page 77. The company's Current Ratio is 3.00. Chanor has an excellent margin of liquidity; the margin of liquidity debt capacity is 3 to 1. Chanor's current assets of cash, and assets such as accounts receivable and inventory, can be readily converted to cash. The current liabilities consist of payments that Chanor expects to make in the near future, such as accounts payable. The company has an exceptional ability to pay for its current debts

without any concern at this time and strongly supports its broad range differentiated strategy.

Table 19: Current Ratio for 2004 and 2005

Current Ratio	2004 \$	2005 \$
Current Assets	158,000	177,000
Current Liabilities	68,000	59,000
Current Ratio	2.32	3.00
Current Ratio		3 to 1

The Net Working Capital is the difference between Current Assets and Current Liabilities, and measures the company's potential reservoirs of cash to pay for current debt. The Net Working Capital for 2004 and 2005 is shown below in Table 20.

Chanor shows that the firm has a Net Working Capital, of \$118,000, calculated as Current Assets less Current Liabilities. The company has an exceptional ability to pay for its current debts without any concern at this time and strongly supports its broad range differentiated strategy.

Table 20: Net Working Capital for 2004 and 2005.

Net Working Capital	2004 \$	2005 \$
Current Assets	158,000	177,000
Current Liabilities	68,000	59,000
Net Working Capital	90,000	118,000
Net Working Capital		118,000

The Quick Acid-Test Ratio is the sum of the company's Cash and Marketable Securities and Accounts Receivable less Current Liabilities. The Quick Ratio measures

the ability of the firm to procure cash if current debts need to be paid quickly. Some assets are closer to cash than are others, and large amounts of inventories may include items that are un-saleable. If cash is needed immediately, the inventories may not sell for anything above fire-sale prices, so inventory is not included in the Quick Ratio.

Chanor's Quick Acid-Test Ratios for 2004 and 2005 are shown below in Table 21. The Quick Acid-Test Ratio is the sum of Chanor's Cash and Accounts Receivable to Current Liabilities. The Quick ratio shows that Chanor has a 2 to 1 liquid cash ratio, which means that the firm has good liquidity and twice the amount of cash to current liabilities. Once again, the firm has a high readily available amount of cash available to pay its current debt and strongly supports its broad range differentiated strategy

Table 21: Quick Acid-Test Ratio for 2004 and 2005

Quick Acid-Test Ratio	2004	2005
	\$	\$
Cash	44,000	37,000
Accounts Receivable	73,000	97,000
Current Liabilities	68,000	59,000
Quick/Acid Ratio	1.72	2.27
Quick/Acid Ratio		2 to 1

4.5.4 Financial Performance Summary

The financial analysis has provided an understanding of Chanor's capital structure and performance, which will also be beneficial in assisting the formulation of future successful strategies. As an example, the understanding of current sales levels and market share can be strategically important, because as sales increase there is an

assumption that both the customer base and the market share have also grown in line with the sales. This is important for a growth strategy, as the potential to gain increased market shares provides the opportunity to gain sustainable competitive advantages in the form of capitalizing on the synergies between the company's activities and experience curve effects, such as increased efficiencies in capital utilization and the sharing and transferring of knowledge and skills. Currently, Chanor is the leader with 100% local market share for the HD truck towing and parts and repair services, and has a strong position in the automotive towing and the parts and repair services, with the potential to also increase its market share in the automotive market.

Chanor's current financial performance has made a dramatic improvement and been able to make a full recovery since the near bankruptcy of the company in the late 1980s. The financial crisis of the late 1980s forced the company into serious cost cutting initiatives and improved financial planning of capital purchases, something never done in the company's history. In the past, the company had made very large capital purchases without any regard to cost or ability to repay the financing activities. Prior to the financial crisis, Chanor had adopted a rapid growth strategy that failed miserably when the economy hit a downturn. The poorly planned financing in the capital structure affected the company and nearly caused its demise. At present, the firm has no long-term debt, a strong cash position and continues to finance all capital expenses out of operating revenues.

Chanor has shown its ability to productively use its assets and increase its profits as seen in the combination of high profit margins and high asset turnover rates, which are indicators of best-increased performance. Chanor has achieved increased overall financial

performance by using its assets more efficiently, capitalizing on its synergies, and high capital utilization of its resources. For example, the sharing and transferring of knowledge and skills, labour, large scale facility, and diverse fleet of equipment. Although Chanor has achieved increased overall financial performance, the company could further benefit its efficiency by controlling the internal costs of operations, which would allow a further increase in the profit margins and a return on equity for the shareholder. The overall current performance in the company's financial structure, performance and position strongly support the firm's broad range differentiated strategy.

4.6 Internal Analysis Summary

The objective of the internal analysis was to assess Chanor's ability to deliver a competitive strategy by:

- Establishing the degree to which the company has produced a strategic fit to offer a broad range differentiated strategy.
- Reviewing the company's value chain to help assess the areas of the company's core competencies that need to be improved.
- Completing a financial analysis of Chanor to determine the financial factors that are crucial to the firm's success given its strategy and the ability to achieve and successfully maintain its current financial capital structure, performance and position.

In each of the three main areas reviewed, examples of positive and negative aspects that both assist and hinder the company's ability to deliver a competitive strategy

were discussed. While not all of the aspects were positive, Chanor has many factors that are good or improving and will serve the company well in continually developing and sustaining competitive advantages in the industry's local market.

5 KEY ISSUES

5.1 Overview of Internal Analysis

Chanor's current strategy at present seems to be one of differentiation as the company's goal remains to be one of providing broad range quality services that customers will value and be willing to pay a premium to receive. The critical factor in offering a differentiated strategy is that the cost to differentiate the services provided does not exceed the premium the customer is willing to pay.

The value chain analysis has shown that the firm is capable of capitalizing on the economies of scope and synergies between the activities that the firm provides, which are crucial to the company's ability to form and sustain a competitive advantage in the towing and repair service industry. As well, the firm has been financially successful by providing quality broad range services at a higher premium price through fully utilizing its large-scale facility, the sharing and transferring of skills and expertise of the employees, and the reduction of overall costs of the firm.

The financial analysis has provided an understanding of Chanor's capital structure and performance. Chanor has achieved increased overall financial performance by using its assets more efficiently, capitalizing on its synergies, and high capital utilization of its resources. Overall, the company's current performance in its structure and position strongly support the firm's broad range differentiated strategy.

Key Success Factors:

- Fast and efficient quality services to respond quickly to customers' immediate emergency repair needs.
- Relative pricing to services offered, such as a premium price for value-added quality broad range of services and a low price for low-cost minimum service with high sales volumes. Low costs are necessary because the firm needs to be very cost-conscious and cannot charge extravagant rates.
- Diversified or broad range service requires high quality services, such as a wide range of products and services to provide the "One Stop Shopping" experience that adds value for the customer. Thus, the customer is willing to pay a premium price for this value added service.

A broad range differentiation strategy requires the following key aspects:

- Large facility
- Convenient location
- Wide product range
- The need to combine effective differentiation with low costs
- Flexibility to respond to market changes
- Reputation and quality
- Cost efficiency, internal cost controls and low wages

A low-cost operation strategy requires the following key aspects:

- Operational efficiency
- Internal cost controls
- Large-scale efficient facility
- Low wage costs
- Large buying power

5.2 How Does Chanor Measure Up?

Strengths

Chanor has a number of strengths that can be built upon, which include:

- high percentage of loyal, dedicated employees who enjoy the good work environment and flexibility that Chanor provides. Problems and labour relations issues are dealt with at a very personal level, in-house, with very infrequent involvement from outside sources
- strong support from the owner and senior manager, who has subsidized the operation substantially over the past few years and built a culture that, although flawed, is very employee-friendly
- a solid history and reputation in the industry. Chanor is known for providing quality and high levels of service for the past 35 years. Most potential customers know Chanor for one product or service or another. If Chanor is not a customer's first choice, it is usually their second choice
- an extremely good response to emergency breakdown situations. Chanor has the ability to respond quickly and have all necessary equipment and personnel

available, 24 hours a day, 7 days a week at any time of the year; this has been a trademark of the company.

- providing a very complete service package by utilizing their full-scale highly equipped repair facility, and knowledgeable and experienced staff capabilities to complement the towing services. A positive aspect of the firm is that it offers a quality product and service in a central location of its local growth market
- a fairly high comfort level with newer technologies such as electronic testing and diagnostic equipment for newer vehicles. In general, the company is also quite strong in business experience and knowledge of computer applications, such as those for testing and reporting
- exceptional facilities and up-to-date technologies in testing and diagnostic equipment for vehicle repairs
- strong financial stability and great flexibility that the company has built upon for the past 35 years.
- the expansion from an exclusive HD truck repair services to include HD towing and automotive towing and automotive parts and repairs, to capitalize on the economies of scope and synergies between the activities of the operation and to achieve full capital facility utilization.

5.3 Chanor's Main External and Internal Issues

It was also shown from the internal analysis that Chanor could make further improvements and needs to address:

- a lack of focus that confuses customers and employees: needs to formalize the company's goals, directions, business plan, vision, and mission statement, in writing for the benefit of employees and customers,
- unclear processes have increased costs of operations: needs greater internal cost controls,
- poor financial controls and reporting,
- sales and marketing efforts need to be improved: needs a marketing plan. There is also a potential opportunity for growth in the automotive towing services and threats looming for Chanor that will be discussed later in this paper.

5.3.1 Weaknesses

Unfortunately, the shop also has at least its fair share of weaknesses, including:

- a lack of focus that confuses customers and employees,
- a lack of leadership from the owner coupled with prominent outside forces of influences on business direction from family members who are no longer part of the operation, has developed extreme family business dynamics. This leads to management weaknesses and poor business decisions, which have left all employees and customers with unclear signals of direction and focus. Poorly implemented strategies from the past have compounded the problems,
- a lack of structure, goals and accountability: Chanor has no written vision, mission statement, goals, business plan or marketing plan. There are no set

employee goals and there is no commission or bonus system tied to performance. As a result, there is no accountability for good or poor work. Chanor's employees base their work on individual preferences, not on focused company goals

- **insufficient communication:** there is a lack of communication between the owner and senior management. Meetings are held infrequently, every two to three months, during which a quick overview of the previous months' accomplishments takes place. There is no concentrated effort to determine budgets, goals or plan for the future. This lack of communication also harms Chanor's overall operations by not allowing employees to draw upon the knowledge and experience of the owner and senior management on a regular basis,
- **labour issues:** The firm has struggled to find and keep knowledgeable and experienced staff, which is a growing concern for all businesses operating in small rural communities, especially in the repair industry.

Unclear processes have increased costs of operations:

- most notably in recent years, poor documentation and standardization of processes and procedures have caused tremendous amounts of unnecessary duplication of paper work. All work orders are completed by pen and paper, job scheduling is written up on a job board and there is potential to either over-book or under-book work.

- the general lack of standardized processes and procedures seems to cause an inordinate amount of non-productive effort. This needs to be rectified to improve the company's competitive ability. Chanor needs a management system to reduce costs and lessen the current duplication in paper work processing.

Poor financial controls and reporting:

- Poor financial accounting reports: due to the turnover of people in the service and accounting positions and their wide range of abilities, management has received inconsistent reports. Chanor must improve its service levels and become more cost-conscious, as increased efficiency in cost controls is necessary.
- In particular, there are no reports that give a detailed analysis of job costs, division costs and profit margins. Chanor needs to change its easy-going attitude towards managerial accounting and develop strict guidelines for budgets, job costing and control of expenses.
- Profitability: Chanor has high profits; however, management has been unsuccessful in its attempts to make changes to further reduce costs. Overhead and operational costs again increased slightly in the past year. Being cost-conscious will enable Chanor to generate higher profits and be more competitive. Chanor must strive to become more efficient if it is to continue its dominating position in the market.

- Poor financial controls: There is no formal purchase order system in place and employees are able to purchase whatever equipment or supplies they feel they require. Staff have not exploited this to their personal gain, but there has been overspending in some areas due to duplication and lack of concern for total spending.
- Collections period for payments from customers requires some attention; the manual paper work system causes great delays in collections. The payable period requires attention as the firm is not taking advantage of the suppliers' 60-day credit terms that are available. Chanor does not have a parts person or a service writer at this time, which causes added work for each individual in the operations, resulting in lower profits due to duplications, errors and time loss of earnings potential.

Sales and marketing efforts need to be improved:

- weak sales and marketing of shop services have allowed customers to “slip away” and not be adequately replaced. Selling this rather tangible type of service is not easy and requires a relatively high and specialized technical ability, and the ability to build a strong level of trust. This combination is difficult to find in a salesperson, and takes time to develop.
- Sales: Chanor does not have a full-time service writer. It has hired people for the shop, but parts inventory has always been handled by the individual efforts of staff. These managers have administrative and operational duties, and are not able to devote sufficient time to the pursuit of new clients. However, sales have increased over the past four years, showing there is potential in the

industry. Unfortunately, overhead and operational costs have also increased, showing the need for stricter cost controls in operations and overhead costs.

- Chanor must strive to continue its superior service and be very cost-conscious. Delivering high service levels will keep customers content and not so likely to consider the competition.
- There is no system to capture customer billing information, which could provide future repair services and direct sales to be used for customer follow up. Chanor needs to develop a marketing plan with a focus on direct sales and highway signage exposure. At present, Chanor does not have highway signage exposure, as the old signs were taken down to be refurbished and never replaced.

5.3.2 Opportunities

The towing service industry is a growth industry. It is recession proof, because during recessions customers increase spending on maintaining their older vehicles. There are plenty of opportunities for profits and growth for successful competitors within the industry. The opportunities facing Chanor are in acquisitions and growth.

1. Acquisitions:

- There is the possibility to purchase a competitor. Tough competition and average industry-wide profits have led to a situation where almost any company could be purchased for the right price. One of the companies for sale is Chanor's strongest competitor.
- This is an ideal company for Chanor to purchase because the owner is retiring and closing down his automotive towing and repair service shop. Through such

purchase, Chanor will be able to gain a lion's share of the market, as this would give the company 90% of the automotive towing service and a concurrent increased share of the automotive repair service. Chanor would be able to introduce its "one stop shopping" experience, good client relations and skilled employees to many new customers and contracts. This introduction of high service levels and client relations would be a welcome change to the clients.

- By purchasing a towing and service company, Chanor would gain immediate access to a qualified technical/service writer who could service all of Chanor's current accounts as well as the pursuit of increased new sales. Added to this, Chanor would gain immediate access to qualified drivers to handle increased towing sales and continue to provide fast and efficient response times for the customers in need.
- Chanor could gain further advantage through economies of scale and scope, name recognition and career advancement opportunities for its staff.

2. Growth:

- The towing industry is a large industry with steady increases for the transportation market and its customers, and the future looks promising. The local towing service industry has potential sales of over \$200,000 per year. Increases in the transportation market are driving a strong demand for towing services and repairs. Chanor must plan to take advantage of this opportunity by adopting an aggressive growth strategy to capture a share of new business. The current repair market also

offers good growth potential. Chanor can aggressively compete for current contracts serviced by its competitors.

- There are good opportunities in both existing and new markets as the result of yearly increases in the transport industry. Chanor is well positioned to successfully market its towing and repair services to attain growth in sales and market share.
- Chanor faces the opportunity for growth, and presently the company is in a strong financial position; however, it needs to become more proficient in controlling its internal costs to capitalize fully on these growth opportunities.
- Diversification into other types of shop work is another viable opportunity, as Chanor completes many types of repair work and towing. While these and other potential opportunities are already being pursued, this analysis focuses only on the automotive towing service industry.
- There has been growth overall in Chanor's sales, which have increased over the past four years, showing there is potential in the industry. However, operational and overhead costs have also increased, showing the need for stricter cost controls in these areas.

5.3.3 Threats

Chanor's towing business also has a number of serious threats looming and Chanor must be aware of the consolidation of competitors and new entrants.

- Consolidation of competitors: Other competitors in the industry, and companies or individuals outside the towing industry, have the same opportunity to purchase an existing towing company. Chanor's auto towing

service could be threatened if an existing competitor purchased the available auto towing service, resulting in a loss of market share in its automotive towing and repair services. There is potential for increased rivalry among the remaining competitors in the market.

- Current automotive repair firms could form an alliance, and potentially offer discounts to one another for towing and repair services. This may result in increased rivalry among the remaining competitors, with a concurrent loss in the towing and repair market. One or two of the “smaller” shops are increasing their range substantially and thus threatening Chanor’s established customer base, possibly with a simultaneous loss in the towing and repair market.
- New entrants: There are moderately high barriers to entry in the towing service industry; however, Chanor still faces the continuous threat of new entrants into the market. An individual may see the potential to enter regardless of the amount of capital investment required to compete, so there is profit potential to purchase the company and operate the towing services alone as a one-man operation. The new entrant could offer to tow vehicles to specific shops for repairs and gain extra commissions as royalties from the repair shop facility; hence, there is potential for concurrent loss for Chanor in both the towing and repair market. Along with the potential of new entrants, there could be increased buyer power, as customers then play the pricing games to achieve a lower price.

5.4 In Summary

Chanor needs to address some main external and internal issues resulting from the internal analysis, so that the company can maintain its current strong financial position.

There is also the opportunity to increase the automotive towing services through the acquisition of a large competitor. However, alongside that opportunity looms the threat of others making the same purchase and the potential for Chanor to lose market shares for both the automotive towing and repair services.

The key issues facing the firm are:

- a lack of focus has confused customers and employees,
- unclear processes have increased costs of operations,
- poor financial controls and reporting,
- sales and marketing efforts need to be improved,

Opportunity: automotive towing service growth in market share through acquisition of a major competitor,

Threat: potential to lose market shares in both automotive towing and repair services if a competitor or new entrant pursues the same acquisition.

6 STRATEGIC RECOMMENDATIONS

6.1 Overview of Key Issues

The internal analysis shows that Chanor needs to address some main external and internal issues to enable the company to maintain its current strong financial position.

There is also the opportunity to increase market share in automotive towing services through the acquisition of a large competitor, but alongside that opportunity looms the threat of others making the same purchase and the potential for Chanor to lose market shares for both the automotive towing and repair services.

The key issues facing the firm are:

1. A lack of focus has confused customers and employees:

Chanor needs to create a formal written business plan, vision, or mission statement. The owner must also personally commit with consistency to the goals and direction that he would like to see to ensure the future success of Chanor, and communicate these to his employees.

Currently the organizational structure of Chanor is decentralized. The company needs to be centralized due to the influence of the family business dynamics that are presently creating havoc for the management of the firm's overall success. There is a need also for the company to introduce some written

general guidelines as a base from which its staff can draw to ensure quality services are being provided.

Chanor needs to introduce a reward system to its employees. To encourage employees to think outside of the box and be innovative, the firm could give financial rewards to the employee who suggests innovative ideas that prove to be successful for the firm. Possible incentives could be based either on overall internal cost reductions or the employee's ability to continue to innovate.

2. Unclear processes have increased costs of operations:

The general lack of standardized processes and procedures seem to cause an inordinate amount of non-productive effort. The possible solution here is to hire a service writer who would take on the responsibility of job order scheduling, gather customer billing information and be the liaison between the customer and the technicians in the shop repair department. The firm needs a management information system to reduce costs and lessen the duplication in paper work processing that is currently in place; the system will also allow the firm to capture the synergies of the company's operations.

The company could benefit from purchasing technologies that will provide better management information systems for all of the departments. The benefits of the system will far exceed the costs, as this will give the company substantial competitive advantages over the competitors through capitalizing on the competencies and synergies of the firm, as mentioned in earlier sections.

3. Poor financial controls and reporting:

Chanor could benefit by introducing systems for further cost controls and capitalizing on present synergies between the current activities within the operations. Presently, there is no formal purchase order system in place and employees are able to purchase whatever equipment or supplies they feel they require. Staff have not exploited this to their personal gain, but there has been overspending in some areas due to duplication and lack of regard for total spending.

This is an area of concern for the company, as this department requires increased monitoring and cost control procedures to be in place; hiring a parts person for this department is a possible solution. A new computerized system that can manage inventory, service orders and customer billing information would be highly beneficial, as it will allow the full potential of the synergies and link all departments together in a cost-efficient manner.

Infrequent financial analysis reporting is due to the very time consuming process of producing reports from the pen and paper system. At present, this is a very costly process and the company needs to focus its efforts to correct this problem. It can then fully capitalize on the economies of scope and synergies on which the current strategy is based, to consolidate and reduce the overhead expenses.

Profitability issues A/R collections, A/P payments, and inventory controls: Control of current assets is critical to the success of a company if it is to achieve

increased efficiency in its operations. Chanor needs to incorporate a management information system to control its current assets, especially accounts receivable and inventory. As well, additional staff such as the service writer would be very beneficial to the company's success.

4. Sales and marketing efforts need to be improved:

Chanor does not have a specific marketing plan. There is a need to develop a formal written marketing plan to aggressively pursue growth in the automotive market. The aforementioned management information system and the service writer would capture all billings information, payments and operations for return visits. This would provide a competitive advantage, as none of the competitors captures the information from their operations to use for management decisions. Chanor has promoted quality services through a direct sales approach, such as a yearly letter to its customer base promoting current specials. Direct sales allowed the company to communicate to customers what the company offered as well as promote its competitor advantage.

The sales and marketing activities for Chanor need improvement. These activities would benefit from a marketing plan focused on replacing the highway signage, and the direct sales approach, both promoted by the management information system and service writer.

5. Opportunity – automotive towing service growth in market share through acquisition of a major competitor:

Chanor needs to pursue the acquisition of its major competitor to ensure its growth and survival in the automotive towing and repair services market. The advantages would be an increased market share for the automotive parts and repair division, and market dominance in the automotive towing division.

By taking advantage of its strong financial position and first mover advantage, other smaller competitors will be reluctant to purchase more towing equipment to compete with Chanor. The capital investment would be too great for them and the risk of losing control of their market shares in the automotive repair market would deter the forming of any alliances with each other.

6. Threat – potential to lose market shares in both automotive towing and repair services if a competitor or new entrant pursues the same acquisition.

6.2 Overall Business Strategy Recommendation

The overall business strategy the company should pursue is a “best-cost provider” strategy. This involves giving customers more value for money by combining an emphasis on low cost with an emphasis on “up-scale” differentiation. The goal of this strategy is to have the best price relative to rivals with comparable quality and features. Although success in this type of strategy requires a sustained emphasis on cost saving and

quality improvement, it is suitable for a broad customer spectrum and does not necessarily require a large capital investment.

While this “stuck in the middle” strategy is normally a dangerous position for a company, this seems not to be the case for Chanor. The shift in strategic focus to a best-cost provider seems to be the best strategic fit for the firm, given Chanor’s strength in its capital structure, continued steady growth in the transportation industry and the willingness of the customer to pay a higher premium price for the “one stop shopping” experience of a broad range of quality services. There is still more room for improvement to be successful in the best-cost provider strategy that Chanor would need to address, such as greater internal cost controls and a marketing plan. Chanor must formalize in writing the company’s goals, directions, business plan, vision, and mission statement for the future benefit of both employees and customers.

6.2.1 Addressing Weaknesses

For the towing service to survive and thrive, it is critically important that weaknesses be acknowledged and improved. The proposed strategy will address some of the previously described weaknesses in the following ways:

1. The mere existence of a strategy will focus the efforts of all areas of the company – managerial, marketing, shop floor, etc. – and define a direction and purpose for these necessary improvements.
2. A best-cost strategy places a simultaneous emphasis on cost reduction and quality, and therefore will demand the implementation of, and adherence to, more stringent processes and procedures.

3. Focusing on process and cost should produce improved financial results, which will in turn increase the return on shareholder investment, ROE for the owner.

6.2.2 Building on Strengths

The new strategy will take advantage of the strengths Chanor has developed.

1. A stable employee base and good management/labour relations will make communication and acceptance of the strategy an easier task – if it is clearly defined and consistently implemented.
2. The strategy will stress Chanor’s ability to provide “value-added” services such as HD, and automotive towing services and parts and repairs services for both auto and HD markets.
3. The strategy will allow Chanor to utilize the strengths they have gained in economies of scope and synergies to provide a wide range of quality services that will add value to the customer through the “one-stop shopping” experience.

6.3 Strategic Alternatives for Market Growth and Financial Sustainability

Given the threats and opportunities that Chanor faces, the company can pursue five strategic alternatives: 1) maintain the status quo with improvements; 2) purchase a competitor; 3) hire a service writer and parts person; 4) purchase a tailor-made management information system; and 5) sell the company.

Maintain the Status Quo with improvements

Chanor has the revenue base to be a successful company, but it needs to bring its cost structure in line to increase its profitability. In 2005 the revenues of the operation exceeded half a million dollars in sales, employed five employees and has a large share of the local market for the towing and repair services for the HD truck and automotive industry. Chanor can become more profitable if it makes improvements in managerial accounting systems, budgets and sales. The company also needs to define its mission statement, set goals for both the company and individual employees, and commit itself to achieving those objectives.

Purchase a Competitor

In order to achieve growth in the automotive towing services, Chanor could purchase one of its competitors in this market, giving the company an immediate boost in clients, employees and market share. Since one of the major competitors in the automotive towing and repairs business is exiting the local market, Chanor could purchase this company and gain immediate market dominance. Chanor would be able to capitalize further on its synergies and economies of scope with the increased capabilities, services and reputation. As well, there is the potential to retain the purchased company's current highly trained and skilled staff, thereby alleviating the need to find, recruit and train additional new staff.

Hire a Service Writer and Parts Person

In order to achieve increased sales, service capabilities and synergies, Chanor could hire a service writer and parts person. The service writer would handle all dispatching phone calls, work scheduling, payments and collections from customers, and provide immediate assistance to clients who are having problems with their vehicles. The parts person would handle all parts ordering and inventory controls, such as implementing the purchase order system. Either of these employees would follow up on all leads from the owner and management, and be responsible for developing new business as mentioned through the direct sales approach.

Hire a Service Writer and Purchase a tailor-made Management Information System

In order to achieve increased sales and service capabilities and synergies, Chanor could hire a service writer and purchase a tailor-made management information system. The service writer would fill the responsibilities outlined above, and the management information system would capture all customer billing information, inventory management, and all information for preparing financial reports such as budgets and financial planning.

Sell the company

Chanor grosses over half a million dollars annually in sales and has a leadership position in the local market. Chanor has a minimum of five highly skilled employees who prefer to continue to work for the company, a valuable asset due to the costs of hiring and training of new employees. Chanor has shown its ability to be a profitable going concern

in the local market and has many key aspects that would allow the owner to sell the company with ease.

Management Preference

The owner of Chanor has reaffirmed his commitment to seeing the company grow and prosper. He wants Chanor to continue to provide automotive towing services in the local market and would like to increase its current market share. However, he has informed management that he would like to see the automotive towing service earn a profit and sustain itself as quickly as possible. He will provide infusions of cash to pursue the growth of the automotive towing service department and continue to provide high quality services. The preference is for growth, and the managers believe in the products and services that Chanor offers and want to see Chanor become the dominant company in the automotive towing services in the local market.

6.3.1 Strategic Choice Evaluation Criteria

Based on the management preferences, the criteria used to evaluate the strategic alternatives are: cash requirements, profitability, services provided, and growth potential.

Any strategic alternative that is recommended must require cash with potential high returns, and it must show strong potential for improved financial performance. Similarly, it is important to the owner that Chanor continues to offer services in the automotive and HD towing and parts and repairs business; therefore, any strategy must maintain present service areas and levels. The fourth priority in evaluating the strategic alternatives is growth potential; everyone involved in Chanor wants to see growth in clients, quality services and revenues.

6.3.2 Strategic Alternatives and their Fit with Evaluation Criteria

Maintain Status Quo with Improvements

Maintaining the status quo will not require an infusion of capital, which meets the first criterion. Chanor is earning high profit margins but has room for improvement. If improvements are made in managerial accounting with respect to job costing, budgeting and goal setting, management will then be able to see where changes are required to cut losses and increase earnings. This will then allow Chanor to meet the second criteria: profitability.

Chanor has increased sales revenues substantially over the past four years, and appears to continue the trend this year. With high growth predicted for the entire industry, maintaining status quo with improvements will still enable Chanor to meet growth criteria.

The one criterion this alternative does not meet is towing service. Chanor currently has a 40% market share in automotive towing services, which is under threat and a potential for market share losses, depending on the outcome of the sale of the competitor. There is potential for losing substantial market share in automotive towing service and parts and repairs; unfortunately, this would not allow the target of market dominance as wished by the management.

Purchase a Competitor

The purchase of the exiting competitor's towing and repair services company would enable Chanor to achieve growth through an immediate boost in clients, employees and market dominance. Chanor would be able to capitalize further on its synergies and economies of scope with increased capabilities, services and reputation.

This purchase would increase automotive towing services and earnings, provide growth and market dominance, and an immediate return on cash investment, thus meeting all of the evaluation criteria.

Hire Service Writer and Parts Person

Hiring a service writer and parts person would enable Chanor to meet the criterion of increased profits and growth in sales by capitalizing on service capabilities, internal cost controls and synergies. However, the wages and salaries of the additional staff would require increased cash investment and although there would be a return on investment it would be at a much lower rate, thus it would not meet the first criterion of a high return on cash investment.

As with the status quo above, this strategy does not meet the continued towing service provision, due to the threat of a new entrant purchasing the competitor and likely loss of market share dominance.

Hire a Service Writer and Purchase a tailor-made Management Information System

Purchasing a tailor-made management information system (MIS) and hiring a service writer dedicated to operating it would meet the criteria for higher return on cash investment, increased profits and growth. The service writer would be able to use the MIS to increase sales and internal cost controls, such as collecting payment from customers and follow up with the direct sales approach mentioned earlier. The costs of this approach would be higher at first; however, the savings in internal cost controls and increased financial reporting would allow a higher return on cash invested in the long-

term. The wage cost would be less than hiring additional staff to complete all of the necessary financial reporting and cost controls.

The one criterion this alternative does not meet is the continued towing service provision, due to the threat of a new entrant purchasing the competitor and likely loss of market share dominance.

Sell the company

This option does not meet any of the criteria. The owner has expressed a strong commitment to continue in the automotive towing service industry, and appreciates the services it provides to Chanor's overall business. The automotive towing services enables the company to capitalize on its synergies and economies of scope through offering a wide range of quality services and the "one stop shopping" experience that customers value. Selling the automotive towing service would deprive the owner of a valued asset and would not meet his vision of local market dominance in automotive towing services.

6.3.3 Summary

Table 22 on page 108 summarizes the strategic alternatives and their strategic fit with Chanor's management preferences and evaluation criteria.

Table 22: Strategic fit

Strategic Alternative	High Return on Cash Investment	Increased Profitability	Towing Services Provided	Growth Potential Market Dominance
Status Quo with improvements	YES	YES	POTENTIAL LOSS	YES GROWTH
Purchase Competitor	YES	YES	YES	YES GROWTH & MARKET DOMINANCE
Hire Service Writer and Parts Person	NO	YES	POTENTIAL LOSS	YES GROWTH
Hire Service Writer and purchase MIS	YES	YES	POTENTIAL LOSS	YES GROWTH
Sell	YES	NO	NO	NO

6.4 Strategic Recommendations for Market Growth and Financial Sustainability

Chanor Truck Repairs Ltd. has developed a reputation for high-quality services over the past 35 years. Chanor dominates the local market in HD truck towing and parts and services with first mover advantage and now has the opportunity to follow suit with the automotive towing and parts and service market. Currently, the company is in a strong financial position with high capital resources, earns a high profit margin and provides the owner with a high return on investment. In order to capitalize on the solid foundation created and pursue the growth in market share for the automotive towing services while increasing the overall financial performance of Chanor, it is recommended that the company follows three of the strategic alternatives: maintain status quo with improvements; purchase a competitor; and hire a service writer and purchase the MIS.

6.4.1 Recommendation 1: Status Quo with Improvements

The first strategy Chanor must implement is to maintain the status quo with improvements. There is an immediate need for the development of proper managerial accounting reporting systems and management must determine which services are profitable and which are profit drainers. An in-depth analysis of overhead and administrative costs is also required to save money and improve profit margins. Once these reporting systems are in place, the owner and management must work together to set budgets and goals for the short and long-term success of the company. In order to ensure that everyone is working towards the same goals, the owner must present and communicate the company's goals and direction on a consistent basis to all employees. The necessary buy-in from these employees to ensure the success of achieving the company's vision of market dominance in the automotive towing services requires the continued commitment of the owner.

Secondly, Chanor must strengthen the company culture with respect to the importance of delivering high levels of quality service to its customers and continue to provide the "one stop shopping" experience that customers value. Chanor uses this core competency to differentiate itself from its competitors and attract new business. In order to focus the company's attention on this goal, both a vision statement and mission statement must be developed. The vision statement must clearly define Chanor's goals and actions for the next five years. It must be focused, realistic, meet the needs of customers and staff, be conspicuous, and communicated to all employees.

6.4.2 Recommendation 2: Purchase a Competitor

In order to achieve market dominance and survival in automotive towing services and increase sales in automotive parts and repair services, Chanor must first purchase the exiting competitor's towing and repair services business. This first mover advantage will allow Chanor to continue to provide quality broad range services, fast and efficient response times, and the "one stop shopping" experience valued by customers who are willing to pay a premium price.

Through this acquisition, Chanor will be able to achieve growth through an immediate boost in clients, employees and market dominance. Chanor would be able to capitalize further on its competitive advantages of synergies and economies of scope with increased capabilities, capital utilization, services, and reputation.

6.4.3 Recommendation 3: Hire a Service Writer and Purchase MIS

Hiring a service writer dedicated to operating the purchased MIS system should enable the company to attain growth in sales and capitalize on the capabilities and synergies to increase profit margins. This system and position needs to be filled simultaneously with the first and second recommendations, in order to ensure success in achieving company goals and actions, as defined in the vision statement.

The management information system would capture all customer billing information, inventory management and all information for preparing financial reports, such as budgets and financial planning. The service writer would be responsible for operating the MIS to complete work orders, inventory controls and direct sales follow up.

The initial costs of this recommendation will be higher at first; however, the savings in internal cost controls, increased financial reporting and sales will, in the long-term, far outweigh the initial investment.

6.5 Implementation Recommendations for the Overall Business Strategy

Execution and implementation of a well-defined business strategy requires the linkage of strong leadership, the right people process and an operations process. Defining a strategic direction is a critical function if a business intends to stay viable during periods of internal and external change; but once a direction has been determined, the implementation stage begins. The following sections will provide an overview of the short-term implementation issues needed to turn the recommended overall business strategy into action.

6.5.1 Management Issues

The strongest force in the implementation process is commitment and consistency from management. Without this, the strategy will be greeted with suspicion and cynicism, and doomed to fail.

This strategy is based on being able to provide customers with consistent quality service, provided in a cost efficient manner. Management must recognize that if they expect the employees to work with consistency, they too must demonstrate consistency. It is a delusion to expect vague instructions written on a napkin to yield a properly documented piece of quality workmanship. With this in mind, the following are the management and administrative issues for immediate action:

- The strategic plan must be presented and explained to all employees.
- Decisions made by management should be consistent with the chosen strategic direction.
- Service performance must be monitored and communicated to employees.
- Management and administrative functions should be standardized and documented to the same degree as the other area functions.

6.5.2 Personnel Issues

Success in executing a business strategy depends primarily on having the right people. A strategy can only succeed if the employees are capable of carrying it out.

Chanor has many good people at all levels of the organization. Unfortunately, the company also has a percentage of employees who are not as effective as they will need to ensure the shop's continued viability.

To support, encourage, and monitor the effectiveness of all employees, a number of areas require attention:

- Job descriptions should be formalized and documented.
- Clear lines of responsibility and authority need to be defined and circulated.
- Regular performance and satisfaction review sessions need to be established.

These should be instituted for all employee levels.

- Bonus system must be clearly related to individual, department, and company performance.
- Existing employees should be encouraged to upgrade their skills and knowledge.

6.5.3 Support Systems

Many support systems will have to be created or enhanced:

- The management information system needs to capture all processing information to provide financial reports.
- The management information system needs to be completed, fully understood, and fully implemented.
- An inventory management system is required to streamline the process of maintaining inventory levels.
- A review of all paper flow procedures is required to streamline that process into the MIS.
- A system of preparing and presenting quotations in a consistent fashion must be developed and implemented.
- Test forms, specification sheets, and written procedure instructions must be organized and made readily available to employees.
- Measurement methods must be implemented and developed to track improvements made in the operation's processes.

6.5.4 Sales and Marketing

The sales and marketing of Chanor's auto towing services has been very weak. The new strategy should provide a renewed focus on the towing service aspect of the company's business. Some of the areas requiring work will be:

- A marketing plan will have to be developed to convey the firm's strengths to its customers.

- A marketing plan needs to be developed to aggressively pursue growth in the automotive market.
- A focused effort to replace the highway signage and direct sales approach.
- A focused sales plan will be needed to target key accounts and monitor progress.

6.6 Conclusion

Execution and implementation of a well-defined business strategy require the linkage of strong leadership, the right people process and an operations process. A well-defined strategy, clearly explained and properly implemented will allow Chanor's auto towing services department to continue to be a viable business. The recommendations presented in this paper represent only a starting point. Specific implementation details, action plans, and longer-term issues were not presented in this paper, but will be required to ensure that strategic goals are met and properly executed for success.

Chanor Truck Repairs Ltd. has come a long way over the past 35 years but the company is now at a very critical point with the very serious threat of losing market share in both the automotive repair and towing services. While the firm needs to pursue the acquisition of the exiting competitor and as it continues to expand into new business opportunities, existing business segments are also important and should continue to be nurtured and developed. As Chanor pursues its growth by expanding its offerings, it is important for the company to limit these additional goods and service offerings while not over-extending its financial and personnel limitations. Chanor must not dilute its focus on the core competencies of its original market segment to the extent that it could lose the golden goose that is to help fund the new segment. Further, those existing segments do

not stand still. The environment in any industry is fluid and even though it may be changing at an almost imperceptible rate, it is indeed changing.

A company that does not adapt its strategy to keep up with changes finds itself overtaken by competitors, and witnesses the erosion of its core competitive advantages. Conversely, a company that adapts and makes changes in a strategically logical fashion continues to grow and prosper. Chanor will no doubt choose the latter route – beginning with new strategies to address key issues facing the firm, improve the company’s market share for the automotive towing services and realize the firm’s financial sustainability.

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