

# STRATEGIC ANALYSIS OF A DATA PROCESSING COMPANY

by

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## **ABSTRACT**

This paper contains a strategic analysis of a data processing company that provides outsourced payroll services to employers in Canada. For the purpose of confidentiality, the name of this company is disguised as ABC Canada.

This company is in a mature industry, which is characterized by slow growth and narrowing of product differentiation as new entrants are able to penetrate the market at lower cost due to the advancement in information technology. The growth of this industry in the last four years has been minimal. In order to defend its market leadership, the company takes on a product differentiation strategy through bundling of human resource, time and labour management solutions, and a full suite of comprehensive solutions along with traditional or fully outsourced payroll services to employers of all market segments. This product differentiation strategy serves to gain new clients by enhancing their competitiveness and to protect the revenue of existing clients by creating a lock-in effect through increasing switching costs.

Despite the company's steady growth and outstanding performance compared to rivals in Canada, the dominant cost-based strategy approach in managing the business could potentially undermine the company's product and market differentiation strategy in the long run. Implementation and services teams are working on separate silos as supposed to working as a team. The sales force has too many layers of management that restrict and under-utilize its full potential.

In order for the company's continuous effort in differentiating its products and marketing strategy to work in the long-run, it is recommended that restructuring of the implementation and services teams needs to take place to service clients with fully outsourced or bundled solutions. A

restructuring of the sales force and an evaluation of the compensation structures also need to take place to ensure the company long-term growth.

## **DEDICATION**

I dedicated this paper to my wonderful wife, Amanda who has generously given me the space and the emotional support to pursue my educational goals; and also to my daughter, Abigail, born in the midst of this program, who has inspired me to embrace all challenges with the proper perspective.

## **ACKNOWLEDGEMENTS**

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## **GLOSSARY**

<b>Source Deduction</b>	Federal and provincial income taxes, Canadian pension plan, Quebec pension plan, unemployment insurance premiums, provincial health taxes, etc. that are calculated as a rate of the gross salary and are to be remitted on a frequency specified by the federal and provincial revenue agencies.
<b>Bi-weekly Payroll</b>	Payroll frequency once every two weeks and 26 pay periods per annum, typically every second Friday or Thursday.
<b>Semi-monthly payroll</b>	Payroll frequency twice a month and 24 pay periods per annum, typically the 15 <sup>th</sup> of every month and the first or the last day of the month.
<b>ASP</b>	Application Service Provider. Software hosted by a service provider accessible via internet in a secure website.

# **1 COMPANY ANALYSIS**

This paper presents a strategic analysis of ABC Canada for the purpose of exploring issues that have prevented it from achieving double-digit growth mandated by its parent company in the short-run, as well as factors that may undermine the company's long-term competitiveness. Issues will be identified after a thorough analysis of the company's industry and value chain, and recommendations will be provided to rectify the issues discovered.

## **1.1 Company Overview**

ABC Inc. is an outsourced payroll and related business solutions service provider with a presence in 26 countries worldwide. It was founded in 1949 to service businesses in the New England states. Since it became a publicly traded company in 1960 it has enjoyed forty years of continuous steady growth. It has expanded into several business divisions. Among its top four revenue generating business divisions are: Employer Services, Brokerage Services, Dealer Services, and Claim Services. Employer Services remains the most profitable division accountable for over sixty percent of the company's revenue and profits as it incorporates its original core business of payroll outsourced services, which alleviates employers' administrative burdens and assumes the risks of paying employees and filing taxes to government agencies, while offering many other valued added solutions and related services such as integrated HR and employee attendance and cost management systems to employers. The vision of the Employer Services division is to provide mission critical value added services with information-based business solutions to aid employers in tasks from recruitment to the retirement of their employees.

ABC Canada became a wholly owned subsidiary of US-based ABC Inc. in 1982. As a strategic business unit under ABC's employer services division, ABC Canada currently processes pay cheques for one in every four Canadians in the private sector. The company is Canada's leading provider of payroll and other services such as human resources management and time and labour management solutions that helps employers to streamline internal and transactional processes and to provide valuable business information to help employers making right decisions when recruiting and managing their employees. It employs more than 1,600 associates who service over 45,000 clients across the country. ABC Canada's growth strategy throughout the 1990's was the acquisition of payroll service divisions from financial institutions such as the Bank of Montreal, the Royal Bank and the Bank of Nova Scotia.

This paper offers a strategic analysis of ABC Canada and provides recommendations on how the company can continue to achieve annual double-digit growth of 10% to 15% in earnings per share as mandated by its parent company in the US. The first chapter of this paper will cover the ABC Canada's current situation and its profitability. Chapter 2 will provide an industry analysis of outsourced payroll processing. Chapter 3 presents an internal analysis of the firm. Chapter 4 examines key critical issues that the firm faces. Finally chapter 5 offers recommendations on how to implement solutions to maintain the firm's historical growth path.

## **1.2 Product and Services**

As the leading provider of outsourced payroll, human resources, and time and labour management solutions, ABC Canada not only pays one in every four Canadians in the private sector but it is also the largest remitter of source deductions to Revenue Canada Agency. The transactional nature of service business creates a business model with recurring revenues, and allows steady growth in profits year after year. In general, these outsourced services enable companies to free up internal resources such as people and time, to eliminate the high initial cost

of purchasing and programming software, to have access to the latest technology, and to improve strategic focus on core business. The following sections details the different types of services offered by ABC Canada.

### **1.2.1 Payroll Services**

Payroll service is ABC Canada's core business. Since payroll administration is not a revenue-generating activity and does not have any strategic value in enhancing competitiveness for most companies, it makes sense for this task to be outsourced to an outside vendor who can do it more efficiently. This traditional type of payroll outsourcing service streamlines a company's internal payroll processing by calculating payroll amounts, remitting source deductions to the Canada Revenue Agency, paying its employees, and producing reports for accounting and management. While most companies have an internal accounting function, companies that have outsourced this payroll process enjoy the benefit of redeploying staff to higher value activities such as accounts receivable and other accounting functions.

Most companies in Canada pay their employees on a weekly, bi-weekly, semi-monthly, or monthly basis. Depending on the type of industry, companies with hourly employees are likely to pay their employees on a weekly or bi-weekly basis for the ease of calculating the employees' total hours worked with consistent pay period ending date before payroll is processed. Companies with salaried employees may choose to pay their employees using any payroll frequency although the most common payroll frequency is either semi-monthly or monthly, depending on the province in which the employees work. In the province of British Columbia, all companies are required to pay their employees at least twice a month whereas other provinces such as Alberta allow companies to pay their employees only once a month.

In a typical payroll cycle, a client gives its payroll information such as hours worked by each employee, changes to the employees' hourly rate or salary, changes in employee deductions,



vacation time taken, absences, and any other information that would affect employees' pay cheque to ABC Canada. Clients have the options of sending payroll information through telephone, fax, Internet applications, or client server applications to ABC Canada a few days before payday. Once ABC Canada receives all the payroll data, the payroll is then processed. Clients receive their payroll pouches with pay cheques or pay statements sealed and folded in envelopes and all standard payroll reports for record-keeping and accounting purposes one day after the payroll information is received and processed by ABC Canada. The client's bank account is then debited to fund payroll although some companies prefer to wire the funds to ABC Canada's bank account and others are forced to accept wire as the only method of transferring funds because their payroll amount exceeds the maximum allowable amount for direct debit, which is any amount over \$600,000 per pay period. The employees who still choose to be paid by cheques receive the cheques that are dated for the payday two days before payday while the rest of the employees have their pay cheques directly deposited into their bank accounts on the paydays. Furthermore, since the remittances of source deductions are done by ABC Canada, it assumes the legal liability in cases when penalties result from late remittances. There are two information technology platforms in which ABC Canada processes payroll on behalf of all its clients: Platform A and Platform B.

### **1.2.2 Human Resource Information Systems**

The human resource department in most organizations is responsible for managing the employees' life cycle through the firm. This life cycle includes recruiting, training, salary planning, performance evaluation, benefit administration, absence planning, and payroll. In order to effectively manage these business processes, human resource managers often require a tool, which automates the flow of data from HR to the payroll system. ABC Canada's human resource information system (HRIS) is ideal for organizations that have extensive requirement in managing the employees' life cycle processes because it transforms the traditional transactional

task of human resource management function into strategic tasks. For example, an HR manager can store all HR information in a central database with employee self-service options so that he is able to access to any HR information and reports needed when making business decisions instead of spending time managing data. An effective use of human resource management tools helps to minimize labour costs and maximize the productiveness of employees.

HRIS can function as a stand-alone client server software or a web-based solution that interfaces with ABC Canada's payroll services on either Platform A or B. The client server based HRIS has been in the market for over 5 years, while the web-based solution was introduced to the market in the year 2003. Both systems enable human resource managers to process all aspects of an employee life cycle in one database, which interfaces easily with ABC Canada's payroll system, eliminating unnecessary data entry.

### **1.2.3 Hosted Solutions**

Hosted solutions are payroll or integrated payroll and human resources management solutions on the ASP model launched in year 2005. In a hosted environment, all payroll and human resource management applications and the necessary data resides on ABC Canada's server. ABC Canada assumes all Information Technology maintenance and upgrades. With the increasing popularity of Information Technology outsourcing driven by cost reductions and a lack of internal expertise, an increasing number of firms are choosing the hosted solutions instead of the traditional client server solutions. The hosted solutions have some top-line and bottom-line advantages.

Top-line benefits include shortened implementation cycles, affordable access to technology, improvement in both Information Technology cost and performance, IT staff recruitment and retention, and system scalability to meet business growth in the future. The

bottom-line benefits are avoidance of capital investments, lower cost of entry for applications, simplified IT budgeting, one-stop shopping and support, and greater IT predictability.

The hosted environment also has the advantage of allowing the full integration of payroll and human resource databases with a communication tool that enables the separation of duties between the human resource manager and the payroll administrator. Any change to the human resources side of the solution affects the payroll side and vice versa. This improvement in administrative process further reduces human intervention and gives the stakeholders greater control over the flow of information and internal processes.

#### **1.2.4 Time and Labour Management Solutions**

Using Information Technology to control the cost of labour in industries with large numbers of hourly employees is becoming increasingly popular in Canada. The time and labour management solutions often involve electronic time clocks that allow employees to punch in and out of work with their hands on a palm reader or swipe cards with barcodes or magnetic tapes. The information captured by the time clocks is retrieved by either the client server software or a hosted solution for the purpose of reporting, analysis, and payroll processing. The supervisors and managers access the time and attendance systems to schedule employee work shifts, to keep track of employee attendance, absences, and vacations, and to approve or disapprove of overtime worked in order to minimize labour costs. Work rules are pre-programmed so that the system can automatically flag exceptions that are outside of normal working rules to alert supervisors. Once all the hours worked are approved by supervisors, the attendance data flows into the payroll system through the control of the payroll administrator for payroll processing. For clients that are on ABC Canada's payroll and time and labour management systems, the payroll administration is considered completed after all attendance data is loaded into the payroll system and transmitted to ABC Canada for processing.

Time and labour management solutions are not restricted to blue collar working environments but can also be applied in white collar environments where employees' time can be allocated into different job costing centres by the employees themselves for accounting or billing purposes. Instead of using an actual time clock, employees can access electronic time sheets and allocate hours worked into different job costing centres. Employees can also use the time sheet and the scheduling system to book vacation times and report absences.

This automated process eliminates the use of old fashion time sheets or punch cards that have to be manually signed by supervisors periodically and then manually tabulated to calculate hours worked and statutory holiday pays. A unionised environment would further complicate and lengthen the process because of the application of complex union rules. The return on investment for such a system is very high, from 50% and up.

A company can cut costs in at least three areas by deploying such a system: manual processing of time cards, reducing errors, and time theft. First, the time required to process each timecard or timesheet manually is estimated to be 7 minutes based on a study done by the American Payroll Association<sup>1</sup> on behalf of ABC Inc. Second, errors made in manual computing of timesheets are often an overlooked cost. Studies have shown that inaccuracies caused by human errors add up to 1% to 3% of total payroll. Third, annual surveys on time theft show that the average weekly "lost time" is 4 hours and 5 minutes as a result of employees coming in late, or leaving early, taking long lunches, working unapproved overtime and employers exhibiting favouritism. Even if a company can only recover 15 minutes per employee per day, the cost savings are staggering.

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<sup>1</sup> Internal Competitive Information 2001

### **1.2.5 Managed Services**

Managed Services are fully outsourced human resources, benefits, and payroll solutions offered in two tiers: administrative service modules and enhanced services modules that include administrative, human resource advisory, and consulting services. This full service module was launched in year 2002 and is currently the fastest growing service division at ABC Canada. With increasing numbers of companies looking for ways to eliminate all non-mission critical tasks in order to focus on core business functions, this service offers employers a low-risk solution that leverages ABC Canada's overall economies of scale by assuming not only the transactional processes, but also administration of other non-core, but essential functions. In the Managed Services Division, ABC Canada handles both back-end and front-end office services, encompassing traditional transaction processing services in comprehensive administration and multi-tier support.

For companies that purchase the payroll solution module of the Managed Services, ABC Canada assumes the role of payroll departments by assigning dedicated payroll professionals for each client. Depending on the complexity of the clients' processing requirement, ABC Canada's payroll professionals manage all employee records and data combined with the deployment of time and labour management solutions at the clients' site in order to process payroll promptly and correctly in every payroll cycle. All remittances to Canada Revenue Agency, benefit carriers, and other governmental agencies are processed through the Managed Services. ABC Canada even accepts calls from employees who have payroll specific inquiries.

## **1.3 Target Market**

The target prospects are all Canadian employers including for-profit and non-profit organizations and municipal governments. In general, any employer that wishes to reduce costs by outsourcing non-core administrative business processing would be interested in ABC

Canada's products and services. The minimum number of employees required for a company to utilize ABC's payroll-processing service is one. In general, governmental bodies and publicly funded organizations are not interested in outsourcing business processes because they do not believe in outsourcing business processes to private sector organizations. They feel that their complex union payroll rules and calculations would be better managed through deployment of ERP (Enterprise Resource Planning) systems such as SAP, PeopleSoft, or Great Plains. As a result, most of ABC Canada clients are private or non-profit organizations in different industries such as hospitality, manufacturing, health care, high technology, distribution, transportation, private education, financial service, and construction.

The market can be segmented into small business, major accounts, and national accounts depending on the number of employees employed by a company. Generally, small businesses have less than 50 employees and tend to have simple requirements while large clients have more complex requirements. Employers that have more than 50 employees but less than 1,000 employees are in the major account segment and the employers that have more than 1,000 employees are in the national account segment.

## 1.4 Revenue and Profitability

The following is a table of revenue by product category:

**Table 1 – Revenue and Growth of Revenue by Product Category**

(\$ Cdn 000's)

2004 Revenue	% of Total Revenue	Growth from 2003
Major and National Payroll	72.03%	0.55%
Small Business Payroll	19.02%	3.73%
Human Resource Management	2.20%	26.85%
Hosted Solutions	1.97%	1162.00%
Time & Labour Management	2.03%	38.21%
Managed Services	2.76%	23.90%
	100.00%	4.65%

Payroll services for major and national accounts continue to generate the most revenue for ABC Canada. Although Human Resource Management, Hosted Solutions, and Time and Labour Management solutions only account for a small percentage of the total revenue, they are value added services that have high year over year growth. The net operating income after expenses is roughly about 25% of the total revenue. The following table show the profitability by the types of revenue:

**Table 2 – Revenue and Growth of Revenue by Revenue Category**

(\$ Cdn 000's)

<b>Processing Revenue (2004)</b>	<b>% of Total Revenue</b>	<b>Growth from 2003</b>
Platform A Payroll	36.72%	-1.07%
Platform B Payroll	30.20%	9.52%
Human Resource Management	1.64%	31.69%
Float	23.77%	5.19%
<b>Other Revenue</b>	7.67%	9.26%
<b>Total</b>	100.00%	4.65%

Float is interest earning on funds not yet remitted

Other revenue includes set up and year end services

ABC Canada uses two different platforms for payroll processing. They both produce the same result, but each has slightly different functionalities and layouts of reports. Since all hosted solutions are implemented on Platform B, which can handle more complex payroll programming and has some superior functionality compare to Platform A, Platform B is currently the platform of choice with a higher rate of growth. An interesting observation to note is that the float revenue, which is the interest earned from funds not yet remitted, accounts for almost one quarter of the total revenue. Since the net operating income is roughly 25% of the total revenue, the profitability of the company is greatly impacted by the interest earned on funds not yet remitted given that the revenue from interest earned on funds not yet remitted also accounts for roughly 25% of the total revenue (Clients who choose the tax filing option are compensated by a per employee charge

which is about 20% less). If the interest rate were to go up to the level of year 2000, the float revenue could potentially double.

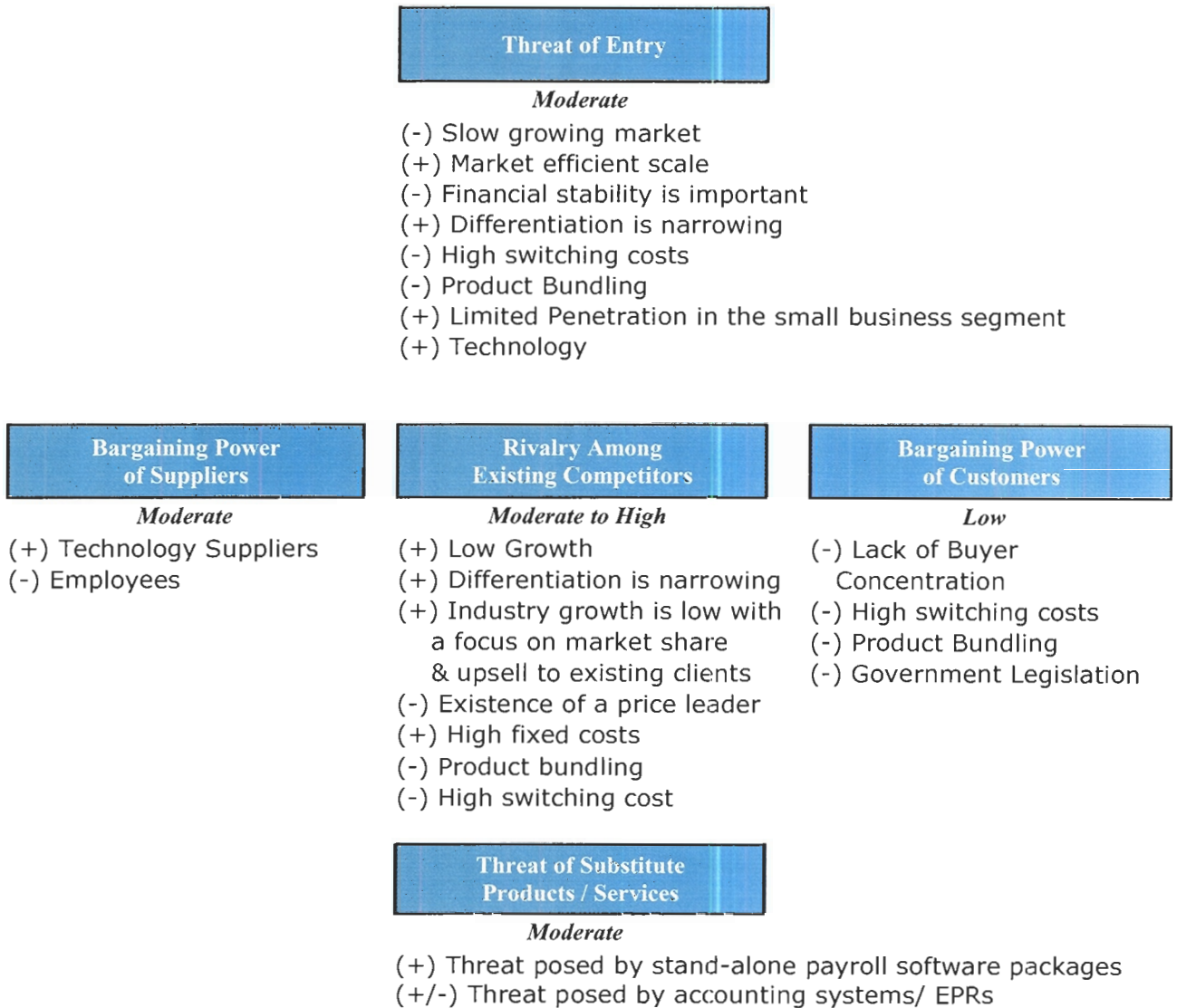
The next chapter will provide an industry analysis of payroll processing services. Chapter 3 presents an internal analysis of the firm. Chapter 4 examines key critical issues that the firm faces, and chapter 5 offers recommendations on how to implement solutions to maintain the firm's historical growth path.



## **2 INDUSTRY ANALYSIS**

The outsourced payroll processing service industry in Canada has annual revenues of over \$400 millions per annum with a very slow rate of growth. ABC Canada is the industry leader with over \$200 million of annual revenue. It provides the greatest breadth and depth of employer services solutions from payroll, Human Resource (HR), time and labour management (TLM), to managed services. By using Porter's model, this industry analysis will uncover the attractiveness of the payroll service industry and identify the key factors for a vendor to be successful in this industry. Figure 1 is a competitive force diagram adapted from Porter, 1979.

Figure 1 – Competitive Force Diagram<sup>2</sup>



## 2.1 Threat of Entry

The threat of entry is moderate for the outsourced payroll industry in Canada. Barriers that may discourage new entrants into the payroll processing service industry include the slow growing market, the financial stability and reputation of incumbents, switching costs, and bundling of services by incumbents. However, the market potential in the small business segment, small market minimum efficient scale, and the homogeneity of payroll processing services

<sup>2</sup> Adapted from Porter, 1979

continue to attract entrants. The technological barrier is also reduced by the shift to Internet technology from a mainframe infrastructure.

### **2.1.1 Flexible Market Minimum Efficient Scale (+)**

Both Ceridian Canada and ABC Canada created a scale of efficiency through the acquisition of major competitors in the industry. However, the availability of high technology infrastructure through implementation of Internet technology allows small entrants to attain the market minimum efficient scale sooner than the incumbents did in the past. Small entrants such as Payworks and Payroll Guardian utilize Internet technology to offer low cost payroll processing for small to medium size companies. Both of these competitors deliver payroll reports and pay statements via the Internet in order to avoid costly expenditures such as high volume, high quality printing machines. Other regional vendors utilize the Enterprise Resource Planning systems to provide an integrated payroll and human resources management services.

As for the funding of payroll and movement of money from the clients to the Canada Revenue Agency, a vendor's strong financial stability and reputation is often important to the clients. Large vendors such as Ceridian and ABC have the advantage of financial stability over the small regional payroll processing companies; however, there are ways in which funding methods can be set up so that funding of payroll can be done directly from the clients' bank account to their employees and the CRA, bypassing the vendor's bank account. Time Plus Canada Inc. has been successful with this type of funding method. It offers payroll-processing services with time clocks installed at client sites. Employees swipe their time cards at work and all the information regarding hours worked is transmitted to the vendor directly for payroll processing, report generating, and remittance preparation then all funds are drawn out of the clients' bank accounts and deposited directly into their employees bank accounts.

### **2.1.2 Financial Stability and Reputation (-)**

The financial stability and reputation of incumbents reduces the threat of new entrants into this industry. Although payroll funding can be drawn directly from the clients' bank account for direct deposit into their employees' bank account, the remittance of source deductions often go through the vendors' bank account before remitted to the Canada Revenue Agency. There are three payroll remittance frequencies depending on the amount of remittance per pay period: Monthly, Threshold I, and Threshold II. In general, the larger the amount of remittance, the sooner an employer is required to remit. The vendors usually hold the source deductions before the remittances' due date so that they can earn extra interest. As an example, ABC Canada remits roughly about 28% of all source deduction received by the CRA. The interest earned by the excess cash flow accounts for close to 25% of the company's total revenue for 2004.

In the cases where the vendors directly debit the clients' bank account for payroll funding and source deduction funding to Canada Revenue Agency, the clients would normally consider the vendors' financial stability and reputation as a decision making criteria. Since the processing cost for a payroll transaction is normally small, based on the number of employees paid, a loss of the entire payroll fund as a result of a vendor's bankruptcy would greatly outweigh the benefit of savings in going with a lower cost vendor. For example, the bankruptcy of Paymaster, a payroll processing company based in Quebec, caused most of its 3,000 clients to lose an entire payroll fund for one pay period in 2003.

### **2.1.3 Narrowing Differentiation (+)**

The narrowing in the differentiation of payroll processing service intensifies the threat of entry, as payroll processing services become homogeneous. Payroll processing is a mission-critical transactional service that has three important tasks: paying the employee on time, remitting source deductions on time, and producing reports timely for accounting purposes. New

entrants that can create a system to accomplish the above three tasks flawlessly are likely to gain market share, especially in the small business segment.

#### **2.1.4 Switching Cost (-)**

The high cost of switching to another vendor is a barrier to new entrants in this industry. The high switching cost in payroll processing service gives the incumbents an advantage in retaining their current clients. A one time start up cost is charged for the implementation of a new system involving the programming of all earning, deduction, and accrual codes, but employers must enter and update all employee-profile information as well as year-to-date payroll information in order for the service provider to process payroll correctly and on time. The switching costs would likely be higher for large employers because a high number of employees adds complexity to the system, especially in an unionised environment.

#### **2.1.5 Product Bundling (-)**

Product bundling by incumbents is also a deterrent to the new entrants in this industry because integrated products and services elevate switching cost. Customers are not likely to switch to a new vendor based on the criteria of cost alone. Customers would usually only consider a change after having unpleasant experiences with incumbents or if their products and services have not kept up with the clients' changing needs.

#### **2.1.6 Limited Market Penetration in the Small Business Segment (+)**

The enormous market potential in the small business segment increases the threat of new entry into the market. This market segment represents all employers that have 1 to 50 employees. For ABC Canada, the revenue from the small business segment represents about 19% of its total revenue, but the rate of penetration for in this market segment only represents 2.5% of the total employers in the market. The problem with penetration in this market segment is the cost, as it is

not cost-effective to have a direct sales force targeting the small business market segment. The new entrants may have lower cost in targeting the small business segment, especially if it can drive clients from different market channels through strategic alliances, associations, or franchises.

### **2.1.7 Technology (+)**

Internet technology has reduced the barriers of entry for new payroll service providers. The industry's two largest payroll service providers, ABC Canada and Ceridian Canada, both utilize mainframe technology, which involve significant capital investment and maintenance. Small entrants such as Payworks and Payroll Guarding are able to enter the market without prohibitive capital cost of mainframe technology.

### **2.1.8 Summary: Threat of Entry – Moderate**

While the reputation of new entrants, the cost of switching, and product bundling by incumbents are barriers to entry, the growth potential that exists in the small business market segment, the narrowing of product differentiation, and the availability of low-cost technology reduces the barriers of entry. The availability of low-cost technology is the greatest threat to the incumbents because the incumbents' use of mainframe computers at the level of economy of scale is no longer a barrier to entrants. Therefore, new entrants in the small business market segment are likely to push the service cost of payroll services lower, even when capturing market share by new entrants is difficult.

## **2.2 Bargaining Power of Suppliers**

The payroll service industry has two main suppliers: technology and people, which play important strategic functions. All other suppliers play insignificant roles in this industry, and thus, have no bargaining power. The proper selection and deployment of technology combined with

well-trained employees and well thought-out business processes enhance clients' operational efficiencies in payroll processing.

### **2.2.1 Technology Suppliers (+)**

Technology suppliers have strong bargaining power in the payroll processing service industry. Most of the payroll service providers such as ABC Canada and Ceridian Canada rely on large technology companies like IBM. The large technology suppliers have higher concentration than the payroll service industry and payroll service providers use such technology to produce their core business: performing millions of payroll transactions that would not have been possible without the use of technology.

### **2.2.2 Employees (-)**

Employees that work for payroll service providers have very little bargaining power in the payroll service industry. The supply of employees with payroll and HR expertise in Canada is abundant. However, high employee retention in the customer service and implementation functions of a vendor tends to correlate with high quality customer service and high rate of client retention; therefore, it is in the best interest of the service providers to pay employees at more than the industry average to enhance the rate of employee retention.

### **2.2.3 Summary: Bargaining Power of Suppliers – Moderate**

The payroll service industry has two main elements that play an important strategic function: Technology and People. Technology suppliers have strong bargaining power because of high switching costs, but employees of payroll service vendors have very little bargaining power because of their abundance in supply. It is the availability of low cost technology that affects rivalry, not the technology suppliers themselves. The incumbents are forced to continue using mainframe computers because of high switching costs and the possibility of a high potential loss

of customers. All other type of suppliers plays minor roles in this industry, and thus, have little bargaining power.

## **2.3 Bargaining Power of Buyers**

The bargaining power of buyers remains low because of the lack of buyer concentration, high switching costs, product bundling, and government legislation on labour standards and unions. The buyers are not concentrated in any particular industry, as the buyers can be any Canadian employer with at least one employee. The switching costs for large employers are higher than that for small businesses, although larger clients have greater bargaining power because of the revenue that they bring to the service providers. The bundling of products and services can further elevate switching cost for the buyers. The Canadian government implements labour legislation on behalf of employees; however, such legislation often burdens the employers with more complex rules and processes, causing employers to be more dependent on the payroll service vendors.

### **2.3.1 Low Buyer Concentration (-)**

The low concentration of buyers relative to payroll service vendors reduces the bargaining power of buyers. All employers in Canada are potential customers to payroll service vendors. According to Statistics Canada, there are over 4 million employers in Canada in 2001<sup>3</sup> employing around 15 million employees<sup>4</sup>. Although the bargaining power of buyers is low, the national account clients with over 1,000 employees have much larger bargaining power than small and medium size companies.

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<sup>3</sup> Statistics Canada, [online]. (Date modified: July 8, 2003). Available: <http://www.statcan.ca/english/pgdb/econ18.htm>

<sup>4</sup> Statistics Canada, [online]. (Date modified: July 8, 2003). Available: <http://www.statcan.ca/english/pgdb/econ40.htm>



### **2.3.2 High Switching Cost (-)**

High switching costs reduce the bargaining power of customers. Clients bear additional burdens and risk when switching payroll service vendors. Unless the potential benefits provided by a new vendor outweigh the cost and risk of implementing a new system, it would not be worthwhile for buyers to go through such an undertaking. This high switching cost explains the limited impact on the client retention rate of the large payroll service providers after each price adjustment or increase.

### **2.3.3 Product Bundling (-)**

Product bundling reduces the bargaining power of buyers. As payroll services are becoming standardized and homogeneous, vendors strive to provide differentiated services and products in addition to payroll processing services that add value and are cost effective. Bundling of human resource and time and labour management solutions increase the overall value to the buyers, but it also increases switching costs to buyers.

As an example, a buyer can purchase payroll service and in-house human resource and time and labour management systems from different vendors. Three separate systems from different vendors would mean that the buyer is required to customize an interface from one system to the other, and the users may still have to make duplicate data entries. When problems arise as a result of a failure in the interface between the various solutions, vendors may be reluctant to respond to the problem because it could be difficult just to identify which vendor's product is responsible. However, if a buyer purchases an integrated system that has all three different components from a single vendor, such a system would work seamlessly with proper support and service such that the cost of switching all three systems at the same time to different vendors would be enormous both in the effort required by the buyer as well as the risk involved.

The bundling of human resource and time and labour management solutions by payroll service vendors also provides added benefits by making such solutions into a full service model similar to payroll processing. The outsourced service model in human resource and time and labour management solutions not only significantly reduces the large one-time initial investment of an in-house system with software and hardware requirements, but the on-going service charge allows clients to have access to customer service at any time without additional charges. The outsourced model also helps buyers to mitigate risk in avoiding sunk cost as a result of a purchasing an inadequate in-house system.

As products and service offerings are bundled, buyer power diminishes as the implementation of each type of customized business solution increases the cost of switching. Moreover, changing vendors would involve the switching of all products and services at the same time because each system relies on the other for proper functioning. Not to do so would negatively impact the clients' business process. Vendors that offer differentiated payroll services (bundling of HR and time and labour management solutions) have a competitive advantage against vendors that only offer homogeneous payroll service.

#### **2.3.4 Government Legislation on Labour Standards and Unions (-)**

Government legislation on labour standards and unions further weaken the bargaining power of the buyer. Government legislation on labour standards and unions are usually beneficial to employees, but most employers lack the internal resources and expertise to meet new legislated labour standards. When new government legislation complicates the administrative task of managing employees, employers become more dependent on payroll service vendors.

#### **2.3.5 Summary: Bargaining Power of Buyer – Low**

The bargaining power of buyers is very low because of the lack of buyer concentration, switching costs, product bundling, and government legislation on labour standard and unions.

Buyers are not concentrated in any particular industry, as they can be any Canadian employer with at least one employee. The switching cost is high because implementation of new solutions disrupts normal business processes and involves an initial learning curve. The customers that have purchased bundled services have even weaker bargaining power because bundling increases switching costs. The government legislation on labour standards also reduces bargaining power of buyers because that often burdens the employers with more complex rules and processes, which cause employers to be more dependent on the payroll service vendors. The low bargaining power of buyers reduces rivalry.

## **2.4 Threat of Substitutes**

The threat of substitutes is moderate due to the prevalence of low-cost accounting software packages, industry specialized stand-alone payroll software packages with increasing functionalities, and Enterprise Resource Planning systems. Although payroll service vendors pay about 40% of the employees in Canada, there are still over 50% of employees that are paid by many types of payroll or accounting software. In the long run, substitutes will always be a threat to the payroll processing service industry because each business is unique and employers may have different preferences on how they run their businesses. Some employers would see the benefit of payroll outsourcing while others would not. The threat of substitutes is lower than the intensity of rivalry between the payroll processing service providers because the clients that perceive the value of outsourcing would be more likely to switch to another payroll service vendor than to an in-house payroll system.

### **2.4.1 Accounting Software and EPR (+/-)**

Accounting software is the primary threat of substitution to the payroll service providers and vice versa. The following are a list of accounting software vendors:

**Table 3 – List of Accounting Software and EPR vendors<sup>5</sup>**

Accounting Systems/ ERPs	Payroll	Human Resource	Time & Attendance
Accpac/ Simply Accounting			
Agresso Corp			
Business Vision			
Great Plains (Microsoft)			
Infinium Software, Inc.			
Interactive Systems, Inc.			
J.D. Edwards			
Lawson			
MYOB			
Macola Software			
Navision HR & Payroll			
One Write Plus			
PeopleSoft			
QuickBooks (Intuit Canada)			
SAP			
Silk Systems Inc.			

 Yes

Many of these industry-specialized financial software packages have built-in payroll and human resource management features and functions. Some are very inexpensive while others would cost millions of dollars. The advantage of these substitutes is that payroll information output is integrated with the accounting systems, thereby eliminating the updating process from the payroll service providers. The disadvantages are that the employers have to have in-house expertise and more internal resources invested in managing in-house payroll system to produce desirable outcomes.

Although these types of software packages are strong substitutes, they can also complement outsourced payroll services because all business that outsource payroll process still require an accounting system for internal management and external reporting to government agencies. The clients that have bought into the concept of outsourcing gain the benefit of

<sup>5</sup> Internal Competitive Information, 2002


outsourcing while maintaining control of an in-house system provided by the payroll service vendors.

### 2.4.2 Stand-alone Software (+)

Stand-alone software is another threat for the payroll service vendors. The following is a list of standalone payroll software vendors:

**Table 4– List of Stand-alone Software Vendors<sup>6</sup>**

Standalone Software	Payroll	Human Resource	Time & Attendance
ASL Consulting			
Avanti Payroll/ HR			
Avantech Software Inc.			
Best Software Canada			
CanPay			
Comvida			
Easypay			
Forward Software			
High Line Corporation			
Now Solutions			
Reportacare Systems			
StarGarden			
Vision Pay Inc.			

 Yes

Employers that are very price sensitive and hard to reach by the payroll service vendors would continue to use in-house software to process payroll. Many of them may never be convinced that payroll outsourcing is the best option for them because maintaining payroll processing in-house can provide them with strategic value. There are many software options to choose from depending on payroll requirements. Some employers require software with robust

<sup>6</sup> Internal Competitive Information, 2002

and complex capability like a unionised manufacturing environment that requires complex job costing calculations while others require simple solutions that are easy to implement and use.

### **2.4.3 Summary: Threat of Substitutes – Moderate**

The threat of substitutes is moderate, as substitutes provide an alternative to buyers who view payroll processing as a core competency in their businesses. In the long run, substitutes will always be a threat to the payroll processing service industry because each business is unique and the managers or owners have different preferences on how they run their businesses. Some businesses would see the benefit of payroll outsourcing while others would not. The threat of substitutes does not affect rivalry.

## **2.5 Rivalry Amongst Existing Competitors**

ABC Canada's key competitor is Ceridian Canada, a wholly owned subsidiary of Ceridian Corporation (NYSE:CEN) which serves more than 135,000 customers in the United States, Canada, and the United Kingdom, including 40% of the Fortune 1000 and nearly 50% of the Fortune 100 companies. Ceridian serves 38,500 Canadian businesses, processing payroll for 2.4 million Canadian employees, and has more than 1,000 employees across the country. It provides payroll, human resource management, and managed services to businesses of all sizes. For the small business market segment, it offers simple payroll service via phone or Internet. For the medium to large account customers, it offers a robust client server front-end software with an option of adding a small human resource solution that shares the same database with the payroll system. Ceridian also offers managed services for customers that want to fully outsource payroll processing, which would eliminate all in-house payroll functions. In order to enhance its competitiveness, Ceridian has a strategic alliance agreement with Advance Tracker, a Vancouver-based time and labour management hardware and software vendor, so that it can offer time and labour management solutions for its clients. Ceridian's pricing is generally slightly lower than

that of ABC Canada and it has a strong direct sales force across the country. Their payroll service costs an average of \$1.50 per employee and up per pay period, depending on the service and technical requirement of the clients.

COGNICASE is another key competitor that has been acquired by CGI, one of world's largest IT firms. Although its presence is limited to the province of Quebec, Cognicase has forced ABC Canada to have a distinct business strategy in order to sustain the profitability and competitiveness in this region. Cognicase is the only payroll service bureau in Canada that has its payroll and HR service centre ISO 9001 certified; and it is staffed with 250 employees. They have 8,500 clients and process pay for more than 800,000 employees working at businesses of all sizes. Cognicase's market penetration strategy relies heavily on an aggressive pricing strategy and a strategic alliance with Banque Nationale, which owns 18% of the company. The payroll service charges can be as low as \$1.00 per employee per pay period.


Other small competitors that pose a threat to ABC Canada's small to medium business segments are Payworks and Payroll Guardian. Payworks is a Winnipeg-based company that offers web-based payroll services to small and medium-sized businesses. Payroll Guardian is a new payroll outsourcing service provider owned by Forward Software, a Vancouver based Enterprise Resource Planning (ERP) Software Company. Both of these competitors offer aggressive pricing strategies for fast market penetration and low cost web-based solutions and they provide easy accessibility and serviceability for most small to medium size businesses anywhere in the country.

The competitive rivalry in the outsourced payroll industry is moderate to high, due to the industry's low rate of growth, narrowing of product and service differentiation, and high fixed costs, however, high switching costs, the existence of a price leader, and product bundling have reduced the intensity of rivalry. The differentiation on the payroll processing service is

narrowing, causing incumbents to compete for the market with somewhat undifferentiated products and price-cutting. The vendors that choose to bundle HR and time and labour management solutions with payroll processing services are able to increase product differentiation and switching costs. The following is a table with a list of payroll service bureaus and the solutions providers in Canada.

**Table 5 – Canadian Payroll Service Bureaus and Their Product and Services<sup>7</sup>**

	Payroll	ASP Payroll	HR	ASP HR	TLM	MS
ABC Canada						
Ceridian Canada						
COGNICASE (CGI)						
Cytronics						
Cyborg Systems						
Desjardins						
eNETPayroll						
Entertainment Partners						
Exclusively Payroll						
Inforcus Business Services						
Infobec Payroll Services						
Leading Edge Payroll Group Inc.						
OnPayroll.ca						
Outsourcing Canadian Payroll Inc.						
Parkwood Payroll						
P.S.I.(Payroll Services) Inc.						
Payroll Guardian						
Payworks						
Time Plus Canada Inc.						
TriNet						

HR - Human Resources Solutions  Yes  
 ASP - Internet Solutions  
 TLM - Time and Labour Management Solutions  
 MS - Managed Services, fully outsourced

<sup>7</sup> Internal Competitive Information, 2002



### **2.5.1 Low Growth Industry (+)**

The outsourced payroll service industry is a mature industry characterized by low growth. During the early 1990's, it was a fragmented industry with many different service providers ranging from five Canadian chartered banks to regional small business solution providers. In the latter half of the 90's, ABC Canada acquired the payroll service divisions of the Royal Bank, the Bank of Nova Scotia, and the Bank of Montreal, and Ceridian Canada acquired the payroll service divisions of TD Bank and Canadian Imperial Bank of Commerce.

During industry consolidation, all the Canadian financial institutions regarded their outsourced payroll services as a value-added service for their clients with the focus of business client retention. As information technology advanced greatly during the mid-1990s, these banks were forced to choose between upgrading technologies in order provide services required by clients or to exit the payroll service business in order to focus on their core competencies. This led to the consolidation of the payroll service business by the two largest payroll service providers.

A low growth rate has been prevalent in this industry since the year 2000. In fact, ABC Canada had a single-digit growth rate, which has been the lowest in the company's history and Ceridian Canada has had zero growth. For both Ceridian Canada and ABC Canada, the new clients that they gain merely replenish the clients that they lose to competition or substitutes such as in-house standalone payroll and accounting and ERP systems. For ABC Canada, its annual client retention rate ranges from 92% to 96%, meaning that it loses 4% to 8% of its client base every year to competitors or substitutes. In order for ABC Canada to achieve its profit growth objectives, it has a target of gaining 180% of the expected loss of clients by acquiring new clients and selling additional features and services to existing clients. ABC Canada is the price leader as it adjusts payroll service fees upwards over time before its competitors and its service charges becomes the benchmark for competitors.

ABC Canada and Ceridian Canada both have a national presence with enhanced financial status to provide services to the clients in the medium to large business segment while other vendors such as Payworks and CGI are regional in scope, servicing mainly the small business segment for companies with 50 employees or less. Since most of the growth comes from the small business segment, the competition between all the vendors in small business segment is fierce, causing aggressive pricing strategies.

The recurring revenue business model, typical in the payroll service industry, ensures that payroll service vendors continue to earn revenues from existing clients as long as the clients are retained. Since the rate of client retention immediately impacts a vendor's bottom line, ensuring a high quality of customer service is the most important business objectives for all vendors. Consequently, the rivalry in this industry lies in the vendors' capability to retain clients, as unsatisfied clients would go to the competition.

Although Porter generally considers government regulation as a barrier, it plays a significant role in benefiting the payroll service industry. Human Resources Development Canada (HRDC) and Canada Revenue Agency (CRA) are the two agencies that monitor the compliance of employers to the employment standard legislation, which are modified from year to year, especially the tax rates. They exist to protect the general public, but their demands can be challenging to implement for the employers. The payroll service industry often regards the government agencies as the driving force behind its growth, as complex rules and regulations would push more employers to outsource this part of their business process.

### **2.5.2 Narrowing Differentiation (+)**

Narrowing of product and service differentiation also leads to an increase in rivalry because unsatisfied customers would switch to other vendors if they were to gain the same benefit of outsourcing and cost savings with an equal or better quality of service. Other than the quality

and efficiency of customer service, the differentiation of payroll services often lies in the differences in software features and functionalities, the ways in which payroll information is transmitted from the clients to the vendor, the hardware and software requirement, and the time required for direct deposits, all of which are becoming standardized. As the payroll service becomes more standardized, ABC Canada will attempt to differentiate its product and service solutions from the competition through bundling of human resources management, time and management, and full HR and payroll outsourced services. As a result, clients that have requirements beyond payroll service would often regard ABC Canada as a preferred vendor. However, clients that are only interested in payroll services tend to be price sensitive and would often make buying decisions based solely on price.

### **2.5.3 Bundling (-)**

As the payroll process outsourcing service itself is becoming homogeneous, bundling is a good strategy to reduce rivalry among competitors. Bundling can be defined as “the sale of two or more separate products in one package”<sup>8</sup>. In the payroll process outsourcing service industry, payroll and human resource management solutions are often sold as one package.

There are two different types of bundling: product bundling and price bundling. Price bundling can be defined as “the sale of two or more products in a package for a discount, without any integration of the products”<sup>9</sup>. In this case, it is not common to find vendors who have multiple solutions that do not integrate with each other; however, most vendors have more flexibility in giving discounts when multiple products and services are purchased at the same time.

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<sup>8</sup> Stefan Stremersch & Gerard J Tellis, “Strategic Bundling of Products and Prices: A New Synthesis for Marketing”, *Journal of Marketing*, Volume 66, Issue 1 (Jan2002): 56.

<sup>9</sup> Stefan Stremersch & Gerard J Tellis, “Strategic Bundling of Products and Prices: A New Synthesis for Marketing”, *Journal of Marketing*, Volume 66, Issue 1 (Jan2002): 56.

Product bundling also refers to “purchasing a system of products which enable and enhance the functionality of one another”<sup>10</sup>. In this case, the value of an integrated payroll, human resource management, and time and labour management solution is greater than the sum of its individual parts. Consequently, the more product and services that are purchased by a company, the harder it would be for the company to switch to other vendors even if the other vendors offer superior pricing in just one product or service.

#### **2.5.4 High Fixed Costs (+)**

High fixed cost in the implementation resources aggravates the rivalry among the competitors in this industry. Implementation resources are often fixed in the short run, causing a constraint on the number of new clients that can be implemented and added at any point in time; and therefore, quality and efficient implementation processes are required in order to ensure that clients are implemented on time. The customer service resources are also fixed in the short-run and they directly impact client retention. High-fixed costs allow vendors to aggressively offer new clients large discounts when they have excess implementation capacity. Rivalry intensifies in periods of economic downturn when companies delay in making any changes to their internal systems, causing an excess capacity in implementation resources.

Discounts normally take the form of free implementation, free processing for a limited period of time, or a bottom-line discount on all processing charges at a certain percentage. Although vendors are willing to give discount pricing because of high fixed costs, clients are normally only interested in vendors that can offer the appropriate solutions. This is why certain vendors have the ability to raise prices through routine price adjustments in the future without jeopardizing the rate of client retention. For this reason, very seldom would clients switch vendors based solely on a change of payroll service cost.

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<sup>10</sup> Hooman Estelami, “Consumer Savings in Complementary Product Bundles”, *Journal of Marketing Theory and Practice*, Volume 7, Issue 3 (Summer 1999): 107

Technology and its maintenance are also high in fixed costs. A deployment of proven technologies is very important as it mitigates the risk and cost of switching systems. It permits product and service enhancements to be done incrementally without migrating clients from one platform to another, which would cost implementation resources and cause clients to be disgruntled because the process of moving a client one platform to another requires as much work as the process of implementing a new client.

### **2.5.5 Switching Cost (-/+)**

Switching costs decrease the intensity of rivalry in this industry because lock-in effect prevents clients from leaving; however, the cost of switching vendors also increases the intensity of rivalry amongst competitors for clients that are not yet locked into any vendor, in particular companies that are using in-house software for payroll processing or newly established foreign subsidiaries. Changing vendors involves a significant administrative burden and a one time implementation charge for the programming and set up of payroll earnings, deductions, and accrual codes for proper calculation of payroll. The buyer is also required to update all employee profiles and year-to-date information before a payroll implementation can be completed. When changing systems, employers also risk that if it is not done correctly and in a timely manner, the employee may not be paid on time. For this reason, buyers are likely to stay with the current vendor unless the benefit of switching vendors outweighs the cost for replacing outdated programs. If vendors are able to bundle integrated payroll, human resource, and time and labour management solutions, the switching cost can be increased even more.

### **2.5.6 Summary: Rivalry Amongst Existing Competitors – Moderate to High**

Competitive rivalry in the outsourced payroll processing service industry is moderate to high. Low industry growth, narrowing differentiation, and high fixed costs intensifies rivalry while the bundling of products and services decreases the intensity of rivalry. Switching costs can

decrease or increase the intensity of rivalry depending on the type of buyers. Differentiation in payroll processing service is narrowing, causing incumbents to compete for the market with a somewhat undifferentiated products and price-cutting. The vendors that choose to bundle HR and time and labour management solutions with payroll processing services are able to increase product differentiation and switching costs. The availability of low-cost technology allows the new players in this industry to have a cost advantage, which will push down the price of standard payroll processing services in the small business market segment. This downward pressure on price may eventually affect the major account market segment.

## **2.6 Conclusion**

The payroll service industry can be very attractive for all vendors that are able to maintain a sizeable market share. However, standard payroll processing has become a mature industry since the year 2000, making it an undesirable industry for new entrants. As competition intensifies amongst all competitors, ABC Canada is the only vendor that continues to differentiate their payroll services by bundling other products in order to gain new market share from competitors and to protect their clients from going to competitors. For ABC Canada, growth in the payroll service industry will come from differentiated products such as integrated hosted solutions; time and labour management solutions; and managed services that are proprietary and unique to the company.

Vendors will also focus on proper marketing strategies to obtain small business clients that are price sensitive and usually costly to attract. The small business market segment is the largest untapped market with potential to improve vendors' profitability. New entrants are likely to succeed by deploying an appropriate market and distribution strategy which targets the small business segment and uses Internet technology that has lower cost compared to the technology used by current large incumbents. A portion of employers that are currently using in-house

payroll systems are likely to switch to an outsource vendor as improvement in technology is likely to reduce the cost of outsourcing as such services provide great flexibility and scalability for businesses in a growth mode.

The key success factors in this industry are A-deploying of proven technologies, B-effective and performing direct sales force, C- maintaining responsiveness of customer service and D- maintaining quality and efficiency of implementation process. When payroll service becomes standardized, deployment and development of proven technology would set a service provider apart from its competition by the perspective of feature and functionality. Together with technology, the quality of employees and their productivity would greatly impact the bottom line because client retention is a key strategic target in this industry. At the same time, quality implementation processes ensure that all the new clients are added appropriately. It is safe to say that quality customer service is more crucial than any successful marketing campaign because a vendor with a high client retention rate can still be very profitable despite a lack of success in marketing to new clients. The overall profitability of a payroll service vendor is dependent on the rate of client retention. At the same time, an effective and high-performing direct sales force is required in order to properly market intangible differentiated services to companies.

### 3 INTERNAL ANALYSIS

#### 3.1 Strategic Fit Analysis

ABC Canada’s strategy is a cost-based differentiator in the payroll processing service industry. Control of costs is important to ABC Canada because the cost of service to clients must be less than the cost of processing payroll in-house so that there is value for companies to outsource payroll processing. However, with the increasing threat of new entrants and the intensity of rivalry amongst all vendors, ABC Canada must have a strategy to provide differentiated products and services that add value to its existing clients while maintaining a low-cost structure to the price-sensitive buyers to prevent a loss of clients to its competitors. In the following sections, the fit of ABC Canada’s strategy will be discussed in each of the generic strategies.

**Table 6– ABC Canada’s Generic Strategy**

	Cost Based	1	2	3	4	5	6	7	8	9	10	Differentiation
Product Strategy	Rapid Follower						X					Innovative
R & D Expenses	Low R & D		X									High R & D
Structure	Centralized		X									Decentralized
Decision making	Less Autonomy		X									Autonomy
Processing	Economies of Scale		X									Economies of Scope
Labour	Mass Production			X								Highly Skilled
Marketing	Push	X						X				Pull
Risk Profile	Low Risk	X										High Risk
Capital Structure	Leveraged										X	Conservative



### **3.1.1 Product Strategy**

Amongst all payroll processing service providers, ABC Canada's product strategy is highly innovative, but it would be a rapid follower if compared to the substitutes such as stand-alone software or ERP. The decision criteria which most companies use to choose their payroll vendors such as product features and functionalities, ease of use through the product designs, and delivery of services are becoming standardized. As payroll processing service is becoming homogenous, the offering of a differentiated payroll processing service by bundling human resource and time and labour management solutions creates a barrier to the new entrants, elevates the switching cost to clients, and prevents clients from switching to competitors or substitutes. Another outsourced payroll service that is differentiated from the normal payroll processing service is the managed services, a full-outsourced service that combines the normal payroll process with a full administrative and consulting services and a call centre that is designed to answer calls from the clients' employees directly.

Although a differentiated product strategy is achieved by product bundling, the control of costs of payroll processing services remains an important strategic imperative for ABC Canada. As a price leader in this industry, ABC Canada's book pricing on payroll services is generally 10%-20% higher than its primary competitor and 20% - 30% higher than the smaller regional service providers. In order to create the value of services, ABC Canada creates its brand name recognition through the offering of differentiated payroll processing services by product bundling and distribution by a direct sales force; however, clients that do not perceive the value of human resource and time and labour management solutions would make purchasing decision of payroll processing service primarily on price. As a result, heavy discounting of payroll processing service fees are often required in order for ABC to gain new clients, but its ability to offer sometimes massive discount rates can only be achieved through a low -cost structure and strategy.

Although Managed Services is a fully outsourced service with service fees much higher than the normal payroll processing services, it is also a cost-effective solution for businesses that are interested in business process outsourcing. ABC Canada's service team is involved on a much deeper level with clients compared to the normal payroll processing services because of the added administrative and consulting services provided as well as customer service offered to the clients' employees. Managed services also add to the differentiation of payroll process service.

### **3.1.2 Low Research and Development Expenses**

ABC Canada's investment in Research and Development as a percentage on its annual revenue is less than 3%, due to the nature of this industry. Although product features and functionalities are important to clients, they are generally not willing to pay a premium to an outsourced payroll processing service in order to have access to the latest possible technology because payroll is rarely a strategic function for organizations. Instead, clients partner with payroll service providers with the objective of achieving efficiency and cost savings. Since low cost is often the primary concern for clients, improvements on ABC Canada's product features and functionalities are normally achieved incrementally, once every few months, and those improvements are rarely drastic.

The investment on the R & D of human resources and time and labour management solutions is also insignificant to ABC's revenue. The human resources managements systems are built on platforms that are purchased from other software companies and the client server-based time and labour management solutions are simply the Canadianized versions of the same products that are already offered by its parent company in the US. A US company developed ABC's client server-based time and attendance system while the web-based ASP solution was acquired through the purchase of a company ABC Canada's parent company in 2003. The R & D expenses of the parent firm create economies of scope.

### **3.1.3 Hierarchical Organizational Structure**

The organizational structure of ABC Canada is highly centralized. Its head office is in Toronto and its reporting structure is hierarchical. Although it has many processing and production centres, customer service, implementation, and sales offices across the country, all the employees that are in remote or regional offices eventually report to the vice presidents of production, customer service, implementation, and sales and marketing in the head office. All accounting functions, information technology infrastructure, product development, and the entire small business implementation and customer service teams are centralized in one of the two head offices in Toronto. This hierarchical organizational structure fits with the company's cost-based strategy by creating efficiency. However, this structure has a negative impact on the sales force by slowing services and restricting comprehensive services and solutions.

### **3.1.4 Centralized Decision Making**

ABC's decision-making is centralized according to its organizational structure. The business strategy is set out by the senior executives in its head office and the organization's goals and objectives are then carried out through the area vice presidents, directors, managers, and associates across the country. The key decision makers within ABC Canada are the presidents and his seven direct reports. This centralized decision-making process also fits with ABC's cost-based strategy by creating efficiency, but it also creates problems by restricting collaboration between the implementation and services teams of different products and services because their performance is measured by different criteria and the compensation structure does not always reward the ones with the most skill sets.

### **3.1.5 Payroll Production and Processing**

ABC Canada has payroll production and processing that achieve scale of economy with over 5 millions payments processed every month. The production and processing of payroll is

supported by its information technology infrastructure of mainframe computers and a high volume printing machines and equipment. In each payroll cycle, payroll inputs are done either through clients' computers via Internet or telephone service representatives by phone. The mainframe computers perform gross to net payroll calculations. Clients' bank accounts are debited to fund payroll and processing fees; payroll reports and pay statements and cheques and payroll reports are delivered to clients via courier, and all source deductions which include federal and provincial income taxes, Canadian or Quebec pension plan premiums, and unemployment insurance premiums are remitted directly to the Revenue Canada Agency on the due date. When implementation is done correctly and clients have accurately input all payroll information, the payroll processing is an automated process that does not require much human intervention.

Similarly, human resource and time and labour management solutions are managed directly by the clients without much service requirement unless the clients have changes in internal policy that may require changes in the programming of these systems. The addition of these value-added services creates a small degree of economies of scope as revenue from the standard payroll processing service still accounts for over 92% of the company's total annual revenue. The degree of economies of scale fits well into ABC Canada's cost-based strategy.

### **3.1.6 Labour**

Although there are highly skilled employees such as HR and system consultants, technology developers and programmers, major/ national account sales representatives, and the executives of all departments, the majority of ABC's employees are in the mass production positions, performing repetitive tasks such as customer service, implementation, banking services, and printing production. While cost control is important for ABC Canada, a high employee retention rate is also important in maintaining a consistent quality of services for clients.

Therefore, the employees in key strategic functions such as customer service and implementation are compensated with salaries above the industry standard because low employee turn over rates ensure consistent and quality service to clients.

### **3.1.7 Marketing**

ABC Canada has both push and pull marketing strategies. Marketing is a very small department managed by the sales department through the vice-president of sales and marketing. The budget for promotion of brand awareness through advertising is small because it is not considered strategically important to the company. ABC Canada uses two different strategies to gain new revenue: a direct sales force that targets the medium to large business segments and inside sales representatives that work with referrals from strategic alliances with financial institutions and prospect inquiries from channel marketing.

ABC Canada has a direct sales force of 110 people, with 74 of them in the medium to large business market segment and 36 in the small business market segment. Monthly sales quotas are assigned to each sales representative to ensure that ABC Canada is consistently gaining new sales to achieve financial and performance targets so that the company's implementation capacity is fully utilized.

In order to achieve sales targets, sales people in the medium to large business market segments acquire new sales revenue by directly targeting new or existing clients. The inside sales people rely on market promotions of payroll services by market channel managers such as the big banks to franchise businesses and business associations. The majority of the client referrals from ABC Canada's strategic financial alliances are also serviced by the inside sales team. While the direct sales force contributes to pull marketing strategy, the inside sales force contributes to push marketing strategy. The direct sales force actively seek out new business and revenue opportunities while the inside sales force responds to direct inquiries of small businesses.

Consequently, the cost of direct sales expense as a percentage of revenue from small business clients is lower than that from the medium to large business clients.

Although the cost of direct sales is high, scale is achieved as ABC Canada's total sales and marketing expense is only about 11% of its annual expenses and 9% of its revenue. The combination of both push and pull marketing strategies by the deployment of active direct sales force and reactive inside sales force fit into its cost-based differentiation strategy.

### **3.1.8 Low Risk Profile**

The business risk that ABC Canada bears is non-threatening. Not only is it a cash business as most of the service charges are pre-paid, it also collects and holds all payroll funds, including all source deductions periods ranging from 2 to 30 days depending on the type of funds and the clients' remittance frequencies. From the financial perspective, clients pre-pay all service charges and allow ABC Canada to earn interest on the funds not yet paid or remitted. The company then has the flexibility of utilizing these funds to support its business activities. As of 2004, float earnings, which consists of interest earned on funds not yet remitted, make up 25% ABC Canada's annual revenue in a period of low interest rates.

From the perspective of business operations, ABC Canada has a large pool of clients. Over 94% of its current revenue is recurring year after year, which guarantee the company's profitability in the short term. Even if ABC Canada stops acquiring additional revenues from its new or existing clients, it will continue to generate profits for a period of time due to its client retention rate. This low risk profile of ABC Canada fits with its cost-based strategy.

### **3.1.9 Conservative Capital Structure**

ABC Canada's capital structure is oddly conservative given that it has a cost-based differentiation strategy and a low risk profile. It can easily acquire business loans at very low

rates to fund its operations because it has an almost guaranteed stream of income, but this is not necessary because ABC Canada has more than enough capital from managing the clients' payroll funds to utilize those funds to earn interest, and generate additional revenue. However, since this surplus of cash flow is to be remitted on behalf of clients, this limits the investment options. The funds cannot be invested in business activities that have risk profile higher than that of the short-term securities. This conservative capital structure does not quite fit into a typical cost-based strategy, but due to the nature of the payroll business, it is an inevitable reality.

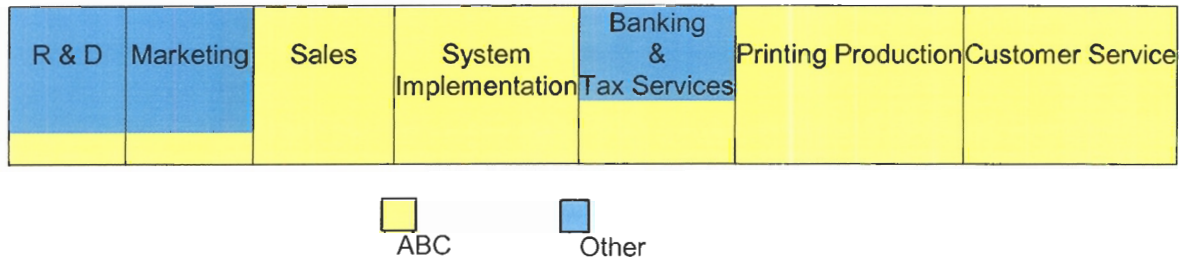
### **3.1.10 Overall Assessment of Fit**

ABC Canada's generic strategy fits well with the cost-based differentiation strategy. Since most of its revenue is recurring, the company is mostly concerned with management of costs in order to maintain profitability. Product differentiation is an on-going process, but the cost of this strategy is low because of its scale of economy and the utilization of existing products and services obtained from its US parent. The conservative capital structure is surprisingly different from a typical company with cost-based strategy because of the nature of business. The surplus of cash flow is restricted from being invested into other business activities that have a high-risk profile because these funds are merely in the process of exchanging of hands from clients to their employees and the Revenue Canada Agency. However, due to the increasing differentiation in its products and services, the labour force that deals with the differentiated products must become highly skilled in order to maintain the service level required.

## 3.2 Value Chain Analysis

### 3.2.1 Industry Level Value Chain

ABC Canada has an industry level value chain that looks like the following:



ABC Canada has footprints in every part of the industry value chain in order to maintain control and consistency of its service quality for its clients across the country. ABC Canada does not have footprints in much of R & D, marketing, and performs only half of the banking and tax services in-house. With respect to research and development, ABC Canada has two platforms in which payroll is processed, Platform A and Platform B. Platform A was developed by its parent company and therefore, ABC Canada does not have control over its R & D, but it has ownership of Platform B because it was acquired through the purchase of Royal Bank's payroll service division. Marketing functions are mostly outsourced to other agencies and most of marketing achieved through alliances with financial institutions. Banking services for financial transactions are performed by the Canadian Chartered Banks according to the federal legislation, limiting ABC Canada's presence in banking services.

A performing direct sales force, quality implementation, and responsive customer service produce value that represents the industry's competitive advantage. Payroll processing service is an intangible product that requires a professional sales force because clients perceive the professionalism of the sales force as the quality of service that they are likely to receive from the vendor. A performing direct sales force and quality implementation ensures that new clients are



added consistently while responsive customer service helps retain clients by preventing them from switching to other vendors.

### **3.2.1.1 Research and Development**

Although ABC Canada's R & D expense is very small in relation to its revenue, Research and Development remains an important function so that payroll software can be kept up-to-date due to the increasing requirements of Windows operating systems for the newer and more powerful computers. The development of integrated hosted solutions in the ASP model is also important to the company as it offers differentiated products and services by the bundling of HR and Time and Labour solutions. On the client server based software applications, new version of software are released once or twice annually. Because the ASP model is believed to be the future of this industry due to the ease of software upgrade and system implementation, a large part of the R & D expenditure is spent improving functions of web applications in payroll, human resources management, and time and labour management solutions.

ABC Canada process payroll on two different platforms: Platform A and Platform B. Platform A is the Canadianized version of a mainframe platform that comes from its US parent company back in 1982 when ABC Canada entered the Canadian payroll service market. Platform B is a mainframe platform inherited from the acquisition of Royal Bank's payroll service business unit in 1997. After the acquisition of Royal Bank's payroll service division, the clients in the Platform B were not converted to Platform A unlike the clients that were acquired through the acquisition of the Bank of Nova Scotia because Royal Bank's payroll client base was larger than that of ABC Canada at the time of acquisition. For about 5 years after the acquisition, the upgrades of Platform B were performed only on the front-end software so that the clients could continue to operate with ABC's system after each upgrade of their internal computer system. At the same time, new clients were only implemented on Platform A.

A decision was made in the spring of 2002 that Platform B was to become the platform of choice because it was the only platform in which ABC Canada had the control of research and development. Although Platform A had been the platform of choice in the past, ABC Canada could no longer depend on its parent company to keep up with increasing client demands for added features and improved system functionalities in the Canadian market. ABC Canada's request on R & D for Platform A were not taken seriously because its parent company's priority was to satisfy the demands from other US Strategic Business Units that have higher profit potential than ABC Canada. The situation for ABC Canada deteriorated further by the weak Canadian dollar that caused the R & D investment for the Canadian market to be financially unattractive.

ABC Canada was forced to invest in the web-based solutions because it was lagging behind its competitors. With the availability and maturity of Internet technology, ABC Canada was at a point where it needed to defend its market share by developing payroll services on the ASP model as it could not afford to wait for the parent company to develop it for the Canadian market. Many of ABC's competitors have already released payroll services through Internet applications so ABC Canada had to decide which platform to build the new Internet payroll products. It was apparent that ABC Canada had to develop the ASP application on Platform B in order to meet the market demand. As a result, Platform B became the platform on which the web enabled payroll services were constructed. The increasing number of new clients that were implemented in Platform B and the diminishing importance of Platform A forced all implementation specialists that were trained on Platform A to be trained in Platform B in order to meet the market demand.

### **3.2.1.2 Marketing**

ABC Canada has a push marketing strategy in the small business segment and a pull strategy in the medium to large business segment. The push marketing strategy was developed by forming financial strategic alliances with the Royal Bank, Bank of Montreal, the Bank of Nova Scotia, and the Vancouver City Credit Unions. These allies market to their client base and actively refer their clients to ABC Canada. All of these banks are compensated with a certain percentage of the revenue from the clients that are referred to ABC Canada. The pull marketing strategy is realized by the deployment of a direct sales force through out the country, each with a specified sales territory and market segment. The advertising budget is minimal, as it is mainly comprised of billboard signs along the highways in Ontario and also on certain selected radio stations at various times across the country.

### **3.2.1.3 Sales & Promotion**

ABC Canada has a direct sales force and three call centres with small business sales specialists covering different business segments from small businesses to national accounts in different regions across the country. Unlike CGI, a payroll service provider in Quebec that has no direct sales force, ABC Canada maintains its direct sales force to gain market share as well as to obtain market information for future product and service research and development.

### **3.2.1.4 System Implementation**

System implementation is part of ABC Canada's core business so it must have full presence in this value chain. All newly acquired clients go through system implementation before they can be live with ABC's payroll processing services. Implementation specialists manage customization of earnings and deduction codes and complex calculations that are tailored to each client. Most of the implementation specialists have long tenure with years of experience at ABC Canada.

### **3.2.1.5 Banking and Tax Services**

Banking involves transfer of funds from clients' bank accounts to their employees' bank account and the Canadian Revenue Agency. ABC Canada has a banking and tax service department with about 100 employees, who manages the transfer of funds, invest excess cash flow into short term securities, and manage client tax issues. Since banking and money movement falls under the federal banking regulations, all movement of funds are performed by Canadian Chartered Banks.

### **3.2.1.6 Printing Production**

Printing is a critical component of the value chain for the payroll service industry. ABC Canada has six major processing and printing centres across the country. The printing of reports and pay statements generally starts after each client has transmitted payroll information to ABC Canada for processing. Reports and pay statements are couriered to clients for payday. Running the print shop efficiently is critical as thousands of payroll pouches must be printed and shipped from each printing centre each day so that they arrive at the clients locations before 5pm the next day, which is typically two days before the payday. Other payroll service providers outsource this function to large print shops.

### **3.2.1.7 Customer Service**

Customer service for ABC Canada is important because it affects the rate of client retention. The higher the rate of client retention, the longer a client will continue to utilize ABC Canada's services, and the larger the revenue and profit for the company. Client retention is the most cost effective way to maintain revenue compared to the efforts and resources required in acquiring new clients. Quality customer service ensures long-term profitability and is an important strategic function for ABC Canada.

### **3.2.2 Firm Level Value Chain**

The company captures two of the three competitive advantages signalled by the industry value chain as it is able to maintain a high quality implementation process and provide responsive customer service to ensure the retention of existing clients. However, its direct sales force, identified as another key competitive advantage in achieving the company's growth objective, is less than satisfactory.

The firm level value chain (Appendix A) shows a clear picture of ABC Canada's strength, weaknesses, and core competency. Due to the nature of outsourced payroll services, ABC Canada strives to remain strong in its core competency from the moment a new client is implemented to the time of processing and delivering of services. The cycle of primary activities for its existing clients repeats in every payroll period from operations to outbound logistics and services. As long as ABC Canada continues to provide quality services to its pool of existing clients, its revenue and profitability would remain strong, making it a company with stable revenue and growth.

This value chain map would also help to explain why ABC Canada has come to a plateau in meeting its growth objectives when its productivity has reached the maximum level as the company has the highest client retention rate compared to any of its parent company's Strategic Business Units. While its primary activities from inbound logistics to customer service are generally excellent compared to its competition in Canada, ABC's sales and marketing requires a great boost in order to for it to meet the double-digit annual growth demanded by its parent company.

#### **3.2.2.1 Firm Structure**

At the firm structure level, payroll and accounting services are excellent while strategic planning and legal services are good. As a wholly owned subsidiary of ABC Inc., ABC Canada is

operated as a Strategic Business Unit independent of its parent company. It is autonomous yet responsible for contributing a share of profit to the parent company; and therefore, it must follow stringent accounting guidelines and US laws governing the foreign subsidiaries of US multi nationals, such as the Sarbain-Oxley Act. The accounting department is headed by a CFO who is responsible for all reporting requirements within strict deadlines and guidelines as required by the parent company. Because of these requirements, ABC's accounting department provides an excellent service to the company. Since payroll processing is ABC Canada's core competency, payroll service, a department under finance to its 1,700 employees is also excellent.

The organization of ABC's departments is hierarchical in nature. Below the President, there are seven departments: Customer Service; Human Resources; Implementation; Technologies; Finance; Product Development; and Sales and Marketing. The employees under these departments, with the exception of Finance and Product Development, are spread out across six major processing centres across the country. Under each of these vice-presidents, there are directors and managers within these departments down to the associates.

The Vice-President of Customer Service is considered the second most powerful man in the company because he is responsible for client retention. He must approve any discounts that are above the authority of area vice-presidents. The customer service representatives are located in all six major processing centres across the country and managed by directors and team leaders.

The Vice-President of HR heads the human resource department. She is directly responsible for employee retention and manages HR managers and consultants that are located in all major processing centres. HR managers and consultants serve specific groups of employees as well as the managers in hiring new employees through an interview processes.

The Vice-President of Implementation heads the implementation department. Four implementation directors and several team leaders manage the implementation specialist in each

region. Although the regional vice-presidents are to manage regional implementation resources, implementation resources were recently centralized under Vice-President of Implementation in order to coordinate resources more efficiently. When one region is operating at full capacity, the resources from other regions would be mobilized to assist.

The Chief Information Officer heads the technologies department which ensures that all technology infrastructure and printing facilities are operating effectively and efficiently, without any down time. It is a critical area of business function because ABC Canada's core business is to provide mission critical services by using the appropriate technology. Any down time in these areas would be very costly. Therefore, the company has established response procedures and set up back-up equipment to avoid any system failure as a result of human error or natural catastrophes. For example, power generators are installed in facilities that have critical technology infrastructure to ensure business continuity, and also, the print shops that are located in the six major processing centres can support each other when any one of them is down for whatever reason.

The Chief Financial Officer heads the finance and banking departments. Reporting to him are Vice-President of Finance and Vice-President of Banking. These departments are responsible for accounting, payroll, billing, banking, client financial services and tax administration. In accounting administration, the Chief Financial Officer spends about 25% of his time on accounting processes so that the company is compliant with the US Sarbanes- Oxley Act. These departments manage all financial transactions and all other related services.

The Vice-President of Product Development heads the department of product development. Although it is a small department and ABC Canada performs very little R & D in-house, product development is a key strategic function as the strategy of product differentiation is an on-going process, which maintains the company's competitiveness in the Canadian market.

The introduction of new products and services is mostly driven by the success that the parent company has had in the US market. Additional improvement in software features and functions are performed in order to tailor to the Canadian client requirements. New and improved product features and functions in payroll; HR; and time and labour management systems are rolled out at a constant pace because of their strategic importance in creating differentiation, even though R & D resources is very limited. Suggestions on new product improvements come from internal and external surveys and are ranked in the order of importance. Any new ideas and suggestions from clients and associates are added to this list, but the ranking of what to be done first depends on how critical the need is. The product management group periodically reviews the list, ranks the importance of each request, and sets the completion timelines for each task.

The Vice-President of Sales and Marketing is responsible for achieving assigned sales quotas so that the company gains additional revenue from new or existing clients. Under him are area vice-presidents, directors, managers, and sales associates across the country.

### **3.2.2.2 Human Resources Management**

The HR management encompasses compensation consulting, health and services, recruiting, employee retention, and employee training. ABC Canada currently outsources the compensation consulting in order to obtain market information on compensation and current market demand of different types of employees so that it can compensate its employees with adequate or greater than market standard salary in order to retain the talent needed to sustain its competitiveness. The health and services is outsourced to a benefit carrier and the company pays most of the benefit premiums.

The company is successful in recruiting employees. Job positions are generally posted on ABC Canada's internal career website and are first opened to its employees and employee referrals before they are open to the public via the company's public website. Head-hunting



agencies are often used to fill positions for sales professionals, managers, and executives. Internal employee career development is encouraged as being an “Employer of Choice” is ABC Canada’s second corporate objective, next to “World Class Service”. Both of these objectives ultimately serve to enhance client experience with the company.

Retention and training are excellent. Retention is outstanding in every department except sales and marketing. Because compensation is generally at par or greater than the market value, the overall employee retention ranges from 91% to 93%, which is much higher than the industry average. Training for all employees is extensive. In order to excel in this industry, ABC Canada believes that its employees must be well-compensated in order to provide exceptional services to its clients. However, compensation for the sales people who generate additional revenue from selling to new clients is less than adequate, making it difficult for the sales managers to hire a professional sales force.

### **3.2.2.3 Technology Development**

The technology development department has two areas: sales and marketing, and product development. Market research was non-existent for sales and marketing until recently, when ABC Canada outsourced this function to a marketing research company in order to gain a better understanding of its brand recognition. Forecasting is another function within sales and marketing that has made major improvements, with the aid of the newly implemented Customer Relationship Management system of Salesforce.com. Forecasting of the quarterly sales totals is very important to the parent company, as the volatility of the company’s share price is generally a reflection of inaccurate forecasting. The more accurate the forecast of quarterly sales is, the more stable the price of ABC’s publicly traded shares, and the greater the credibility of its quarterly and annual forecasts of revenue. Forecasting can be broken down into product mix, revenue, and the release of new or improved versions of products and services.

As for the product development, ABC Canada offers payroll services on two technology platforms: Platform A and Platform B. Technology development on the Platform B is good while Platform A barely meets the basic requirements. Platform B was acquired through the purchase of the payroll service department from Royal Bank in 1997 and Platform A was the platform that was originally developed by its US parent company for the US market. Before 2002, Platform A was the platform of choice as all new clients were implemented on Platform A. Most of the R & D on payroll product technologies on Platform A was done by the parent company.

When Platform A was the platform of choice, clients gave payroll information to ABC's telephone service representatives by phone or transmitted payroll information to ABC Canada for processing via modem to ABC's mainframe computer through a front-end software program on the clients' computers. Once the payroll information was transmitted to ABC Canada, clients would not have the payroll register that lists all the payroll calculations and details until they were delivered by couriers the next day. When Internet technologies matured and competitors released payroll services via Internet applications, ABC Canada was not in a position to offer services via Internet technology because all of the technology development on Platform A was done through the parent company. As a result, ABC Canada chose to enhance client server applications on Platform B, on which it also built Internet applications, making it the platform of choice.

Platform B's client server software was first modified and improved to meet market requirements. This client server application offered clients the function to preview reports that calculate each employee's payroll amounts before payroll is processed. This unique function closes the gap between in-house payroll software and outsourced payroll-processing services, where the clients have the ability to correct any mistakes before payroll is actually processed. The transmission of payroll information is via Internet rather than the old-fashioned modem.

The Internet payroll application is also built on Platform B. With the new Internet payroll technology, clients would not need to invest in the latest hardware or software in order to meet the minimum requirements of the client server software because the Internet payroll application is hosted by ABC Canada mainframe computer. All software upgrades in the future will occur automatically without any need to install software on clients' computer systems. Other unique features are only offered on the Platform B, such as employee statement self-service which enables employees the ability to retrieve their own pay statements through secure Internet sites. An additional feature is the ability to archive payroll reports in a secure website for a period of seven years, as the period of time of record keeping required by Canada Revenue Agency. Clients can access payroll applications and reports via the Internet at any time and from anywhere in the world.

In conjunction with the development of Internet payroll products, web-based human resources management and time and labour management systems have also been developed to integrate with Internet payroll applications. Although web-based solutions have features and functions that require further fine-tuning and improvement, this unique offering makes ABC Canada the only single-source vendor in Canada with multiple solutions.

#### **3.2.2.4 Procurement**

Procurement does not play any major role in ABC Canada's primary activities except the purchasing of information technology providers in particular IBM mainframe technologies. It also plays the role of cost control in purchasing of all business equipments, company cellular phones, etc.

#### **3.2.2.5 Primary Activities**

The primary activities have five different areas: sales and marketing, inbound logistics, operations, outbound logistics, and customer service. Managed services are full outsourced

services that are managed by its service group directly with operations, outbound logistics, and customer service. Each of these activities will be described in detail.

#### **3.2.2.5.1 Sales & Marketing**

Sales and Marketing is comprised of the primary activities such as advertising, banking alliances, channel marketing, franchise programs, and direct sales, all of which contribute to the strategic fit of a cost-based differentiation strategy. ABC's advertising budget is very low. In order to effectively use the advertising budget, ABC Canada's advertising focuses on billboards and radios stations across the country and all advertising activities are outsourced to an advertising agency.

Banking alliances are important strategic relationships as they are the main marketing drivers responsible for bringing in most of the small business clients. ABC Canada's strategic banking alliances are with the Bank of Montreal, the Royal Bank, the Bank of Nova Scotia, and most credit unions. By leveraging the relationships that the clients already have with their bankers, referral from these banking relationships effectively helps to generate new clients in the small business market segment. In return, these banking alliances receive a small referral fee based on a percentage the clients' service charges for one year. The benefit for the banks is that the commercial account managers are able to leverage ABC Canada as a business solution provider, which helps to strengthen the relationships they already have with their clients. The more the commercial bankers are able to help their business clients with other business solutions, the better the relationship between the commercial clients and the banks become.

Channel marketing and franchise programs function as separate departments under the sales organization. The objective is to gain new clients through the formalization of relationships with business associations and franchise companies, which allows ABC's sales force to gain access to new clients as an authorized vendor. When ABC Canada becomes a mandated vendor to

franchises, the franchisees would be required to incorporate its service as part of their standard operations. If ABC Canada is only a preferred vendor, its special marketing program would be communicated to all franchisees, but the franchisees still have right to choose vendors at their discretion. Although franchise programs have been successful in driving agreements with many franchise companies to market ABC Canada as a preferred vendor, this marketing effort fails in its lack of coordination with the direct sales force. Furthermore, these agreements generally take a one size fits-all approach that also fails to recognize regional differences in client requirements.

Channel marketing also targets accounting firms that provide payroll services. It promotes and encourages accounting firms to use ABC Canada's payroll processing service and system in order to reduce their cost and increase their profitability. However, these marketing programs require major improvement.

ABC's direct sales force is comprised of about 110 sales people in the small business and large account market segments. There are 36 people that are inside sales people in the small business market segment, 74 sales people are outside sales people targeting the medium to large business market segment. Of the 74 sales professional in the medium to large business market segment, 30 are account managers selling additional products and services to existing clients while the other 44 are sales professionals that sell to new clients. Each of them is assigned an annual sales quota. Roughly 35% of the compensation for the sales force is tied to their sales performance. The overall quality of the sales force is fair because of some fundamental problems within the sales organization that has caused its failure to meet annual sales target for the last four consecutive years. As result, the company hired a new vice president of sales and marketing. The fundamental problem within the sales force is the financial approach in treating additional revenue obtained from new clients the same as extra revenue earned from existing clients.

One of the issues that surround the sales organization is its inability to retain good sales people because of peculiarities in the compensation structure. The sales people that proactively hunt for new clients get the same compensation as the account managers that reactively sell additional services to existing client. Attracting new clients is much more of a challenge than taking orders from existing clients. The account managers are paid 20%-30% above the industry average while the new business sales people's compensation is about 20% below the industry average. This discrepancy explains the 0% turnover of account managers who have almost always been able to meet their sales targets and in contrast the high turnover rate of the new-business sales people who are often unable to their sales quotas. The below industry standard compensation for the new business sales people is a likely culprit for the company's inability in hiring and retaining high quality sales professionals.

This insight into the quality of the sales force also reveals two strategic flaws in the executive teams. Firstly, the revenue from existing clients is considered of equal value to the revenue from new clients. Secondly, the direct sales force is consider as a low-cost means of obtaining sales revenues rather than an important strategic function. A successful sale of products and services to new clients is much more difficult than the sale of additional services and products to an existing client. An account manager with good customer service skills can do the job easily without much effort, while sales to new clients requires sales professionals with higher-level skills. Consequently, the cost of direct sales force may be high because over 70% of new-business sales people and about 36% of account managers are under performing. The high turnover rate of sales people in an industry with a steep learning curve adds to the high cost of direct sales.

#### **3.2.2.5.2 Inbound Logistics**

Inbound logistics comprise of system implementation, customization, programming, and learning services that are the best performing functional areas that are clearly identified by the

executive team as the strategic core competency of ABC Canada. Although programming is a weaker link of the value chain, revenue from clients cannot be realized until these functional areas perform well in implementing clients into ABC Canada's IT system. During the implementation stage, implementation specialists are assigned to specific clients to handle the implementation projects. They would perform extensive analyses of the clients' needs and system requirements and set up project plans with target dates when each implementation process must be completed. This process would also involve the customer technology support groups in setting up the clients with proper software and systems access, ledger programming groups for writing the accounting interface to the clients' financial software, and the learning services which offers in-class or web-based training for all clients. No revenue is earned until the implementation projects are completed.

Retention of implementation specialists is very high due the above industry average compensation structure and their flexible working environment. Since most of the implementation specialists have been with the company for many years, their expertise and focus on customer service contributes to the positive overall client experience with the company.

#### **3.2.2.5.3 Operations**

Operations include information technology operations, banking, tax services, and financial services. These functional areas are also identified as the core competency of ABC Canada. Perfect execution of the operations of payroll processing is the basic requirement for the success of the company in this industry. The operation starts when clients submit payroll and employee information via the Internet, modem, or telephone for payroll processing. ABC Canada's mainframe computers perform payroll calculation, then the banking and tax administration group debits the clients' bank account for the entire payroll amount including service charges, wires the funds to individual employee bank accounts, and remits all source deductions to Canada Revenue Agency. Although financial services are outsourced functional

areas that are operated by financial institutions, most of the operations are automated without much human intervention unless clients call in to stop payments during payroll processing or request additional payments.

#### **3.2.2.5.4 Outbound Logistics**

Outbound Logistics is comprised of printing production and courier delivery of pay statements and payroll reports. Although layout of most standard reports can use some improvement, the printing production is very efficiently run. ABC Canada has six major printing productions centre that are responsible for the printing of pay statements for millions of employees each pay period. The printing process involves the printing of reports and pay statements, the folding and sealing of pay statements in envelopes, and the sorting of these pay statements and reports into plastic courier pouches. Most of the courier pouches are picked for delivery before the end of the day.

#### **3.2.2.5.5 Service**

The excellent quality of customer service is very important for the company because it is the most critical strategic functional area for ABC Canada, contributing to the high client retention rate that ranges from of 91% to 96%, higher than any other Strategic Business Units of the parent company. High client retention rates result in high profitability for the company. This functional area involves client inquiries on payroll processing or changes in payroll legislation, consulting on legal compliance to provincial or federal labour standard legislation, additional programming or changes to payroll calculation formulas, year-end service with balancing T-4 and T-4 productions, trouble-shooting when the clients have trouble transmitting payroll information via modem or Internet, and manual payroll processing when the clients' IT systems crash for whatever reason.



In the small business market segment, two large call centres in Toronto and Quebec receive calls from clients at any time. The process and result of each client call is logged into an information system so that any customer representative that answers a future call would understand what other customer service representatives have done and would be aware of any outstanding issues.

In the medium size business market segment, there are six regional call centres. All clients are assigned to a small team that range from four to seven customer service representatives and the process and results of each customer service call is also logged for tracking and quality assurance purposes.

In the large business market segment, clients are assigned to customer service teams of two. This means that the clients have a dedicated service team with whom they would have a close working relationship throughout the clients' life time cycle with the company.

In order to maintain a high client retention rate, qualitative and quantitative performance measurements are in place to ensure the quality of customer service. On the quantitative measurements, each client call is tracked and measured down to the number of seconds the client has waited before a customer service representative answers the call, the length of conversation, and the time required to solve an issue after the phone call. Other measured call statistics are percent of calls answered, maximum delay in answer phone calls, number of abandoned calls and the average waiting time before calls are abandoned. Although quantitative measurement using call statistics gives good indications on the overall performance of the customer service representatives, quantitative measurement alone is not enough to measure customer satisfaction. The following table is an example of the call statistics.

**Table 7 – Sample Call Statistics**

<b>CALL STATISTICS</b>						
<b>Week Starting Date (Monday)</b>						<b>Service Level 94%</b>
<b>Service Centre Identification</b>	<b>Location</b>		<b>Product</b>		<b>Segment</b>	
<b>Manager Responsible</b>						
<b>Call Summary</b>	<b>Mon</b>	<b>Tues</b>	<b>Wed</b>	<b>Thurs</b>	<b>Fri</b>	<b>Total</b>
Total Calls In	230	304	191	152	159	1036
<b>Calls Answered Summary</b>						
Calls Answered	226	288	189	150	159	1012
% of Calls Answered	98%	95%	99%	99%	100%	98%
Average Speed of Answer	0.05	0.18	0.04	0.10	0.05	0.09
Average Talk Time	3.28	2.59	3.49	4.23	3.36	3.33
Average After Call Work	0.05	0.05	0.14	0.01	0.02	0.06
Maximum Delay	3.09	10.54	1.59	5.15	1.24	10.54
<b>Calls Flow Out Summary</b>						
Calls Flow Out ("0" out to Admin.)	0	0	0	0	0	0
% Calls Flow Out	0%	0%	0%	0%	0%	0%
<b>Calls Abandoned Summary</b>						
Calls Abandoned	4	16	2	2	0	24
% of Calls Abandoned	2%	5%	1%	1%	0%	2%
Average Speed of Abandon	0.16	2.20	0.03	0.51	0.00	1.41
<b>Voicemail Summary</b>						
Received	0	0	0	0	0	0
% of Calls Rec'd via Voicemail	0%	0%	0%	0%	0%	0%
<b>Calls Out</b>						
Total Calls Out	197	215	208	208	139	967
to Client	0	0	0	0	0	0
% to Client	0%	0%	0%	0%	0%	0%

To measure performance qualitatively, the clients receive two surveys per year from an independent company that determines client satisfaction through a negative scoring process. The combined score for call statistics and client surveys directly impacts the bonus that each customer service representative receives each year. (A sample of survey forms can be found in Appendix D). Aside from annual bonuses, the customer service representatives are compensated handsomely and above the industry average, resulting in a very low turn over rate for customer service representatives.

**3.2.2.5.6 Managed Services**

Managed services are fully outsourced services provided to clients by assigning a team of three payroll professionals to manage the clients' payroll processing on the current payroll service structure. These teams of payroll professionals include a payroll clerk, a payroll administrator, and a payroll manager. This extra layer of service is designed to alleviate administrative burdens so that the clients no longer require internal payroll departments. This system seems to work very well for clients that desire to eliminate their entire payroll administration, but the design of this system is inadequate for clients that are more demanding, as has been revealed through the customer satisfaction surveys.

The fundamental problem with this model is that a dedicated payroll administrator is assigned to each specific company, resulting in some payroll administrators being responsible for performing payroll services to many different companies within a short period of time. If he or she were already busy with one client, other clients would not be able to have a live person to answer a potentially urgent request. It is important that the service model for the full payroll processing services be re-designed in order to meet the demands of this growing market.

### **3.2.3 Conclusion**

In conclusion, ABC Canada has integrated vertically within the industry in order to maintain control and consistency in product and service offerings to clients across the country. This strategy fits the company's cost-base strategy in an industry with stable growth and revenue. In each of the functional areas within the firm level value chain, ABC Canada has most of its primary functional areas identified as core competencies with superior performance compared to the competition. The performance of the direct sales force requires improvement. If senior executives were able to recognize the flaws in the strategy for the sales force and consider it a strategic core competency, in particular the compensation of the new business sales force, the sales force would become a powerful driver for ABC Canada's steady and continuous growth in

the future. The managed service is a fast growing area of the business that requires more executive attention because of its low average service quality as a result of the customer service structure.

### **3.3 Corporate Culture**

ABC Canada is a business unit under a US parent company. It has a great degree of autonomy. ABC Canada is a tightly controlled organization that is very centralized. Because of the recurring-revenue and production-oriented business model of ABC Canada, the president stresses the importance of business continuity, information confidentiality, conservative growth, and tight controls on cost. The organization is managed as if it is a machine that is fail-proof because business processes and system redundancies are established in order to ensure consistent performance under any external conditions.

The organizational structure and skills required to sustain ABC's profitability affects the corporate culture to a large degree. There are three initiatives in which ABC Canada strives to advance: World Class Service, Employer of Choice, and Product Leadership.

#### **3.3.1 Corporate Initiatives**

The company strives to consistently offer "World Class Service". Anything that helps to improve the delivery of quality services is a priority to the organization. This initiative leads its employees to focus on total quality service, making them proud of their service delivery. This is an appropriate approach for a company whose financial performance is directly tied to the customer satisfaction. This initiative is applicable to all departments within the organization. Whether customers are internal or external, the performance of the entire company impacts the delivery of services to the client and the company's bottom line.

Being an “Employer of Choice” is the second most important objective for the organization. This initiative is directly tied to the turnover rate of its associates. Since a high employee retention rate is directly correlated to low consistency in quality service, ABC Canada strives to be the best employer for the employees that are in its core competency functional areas. Compensation is normally higher or on par with the average industry standard, but there are many other benefits for the employees.

In addition to a regular salary and performance-based bonuses and incentives, ABC Canada provides other base benefits that are above the industry average. First, ABC Canada offers benefit packages that are mostly employer paid, such as extended health benefits, dental plan, life insurance, accidental travel insurance, provincial medical service plan premiums, and short-term disability insurance coverage. Second, it offers stock purchase plans where employees are guaranteed to earn at least 15% of the maximum allowable amount in a two-year period. Third, with the approval of area managers, each employee is entitled to receive up to \$5,000 per year of tuition reimbursement for continuing education courses through accredited post secondary institutions. Fourth, the company matches up to 60% of employees’ RRSP contributions deducted from each pay cheque. Furthermore, each employee is also entitled to three weeks of annual vacation from the first day at work. All these above average compensation and benefit package features give employees incentive to make ABC Canada their life-long employer.

The management and sales groups are also compensated with stock options, but the amount of stock options awarded depends on the performance of these associates. The vesting period of stock options is three years, 40% in the first year, 40% in the second year, and 20% in the third year. The stock options benefit becomes “golden hand-cuffs” for performing managers and sales associates because this residual financial reward comes after a good year of performance. These stock options also diminish the competitors’ ability to attract ABC’s high

performing employees when they could receive an additional 10%-20% in addition to their current compensation from stock options.

### **3.3.2 Structure and Skills**

ABC Canada has over 1,700 associates organized into seven departments: Customer Service; Technologies; Human Resources; Implementation; Finance; Product Development; and Sales and Marketing. Customer Service has over 700 employees, making it the largest department in ABC Canada. The Technologies Department has over 500 employees; Sales and Marketing over 150, and the rest are distributed amongst the other departments. The employees' skill requirements are very specific and not easily transferable between departments, except for the customer service representatives who can move up to Implementation Services.

In general, the organizational structure is hierarchical with a direct chain of command from the President down to the associates in the different departments. Internal resources are well coordinated through this direct chain of command for different functions within the organization. New clients are passed on from Sales to Implementation and then to Customer Service. Clients are served by the customer representatives for any technical or functional issues purchase additional services from account managers. This tightly controlled organizational structure reduces costs by centralizing all internal resources.

The Sales Department also has a hierarchical structure, although the Vice-President of Sales and Marketing reports to both the President of ABC Canada and the Senior Vice-President of Sales of ABC International. Before the former vice-president of sales and marketing was let go, he reported to the president directly. However, the reporting structure was changed after the new Vice-President of Sales was hired, so that the president, who is an expert in operations, could rely on the VP of Sales to take the lead of the sales force with a boss who understands sales.

Because of this tightly controlled structure, the corporate culture does not encourage autonomy outside of the planned business targets and is somewhat bureaucratic. For instance, purchasing or replacing a colour laser printer used for printing client business proposals requires that an extensive business case analysis be prepared and approved by the purchasing department before negotiations with potential vendors begins. The purchasing department may decide to have the printer serviced to the extent that every replaceable part had been replaced before any decision is made. Meanwhile, the quality of printing has not improved at all. At a smaller organization, a sales manager would have replaced such a printer immediately because the printing quality on proposals often reflects on the image of the organization.

Any conflicts between employees in different departments or within a single department are guided by documented policies available to all associates. In the sales department, there is so much market segmentation between the sizes of business by the number of employees as well as between new and existing clients that conflicts often arise as to who is entitled to what business revenues. The company's 80-page sales policy manual is designed to resolve disputes between associates.

### **3.3.3 Assessment of Culture**

The corporate culture is largely affected by ABC's hierarchical and often bureaucratic organizational structure that discourages autonomy. A high rate of employee retention is achieved through a higher than normal compensation structure and attractive financial incentives which ensure consistent quality service delivery to clients. Although ABC's culture and structure for the most part is in-synch with its cost-based strategy, allowing job satisfaction to be based purely on compensation undermines the company's ability to differentiate its products and services in the long run.

### 3.4 Financial Analysis

ABC Canada's transactional-based service business model makes it a unique company in that it is a cost-focused organization with steady revenue and yet it does not carry any debt. The company has no inventory and a very low collection period as most of the services fees are pre-paid by debiting the clients' bank accounts or receiving the clients' wire transfers of funds before payroll processing takes place. Although some financial information is not available because of issues with business information confidentiality, the parent company's capital structure, the performance ratios, and its key measurements and drivers give us a good indication on the firm's financial well-being.

#### 3.4.1 Capital Structure

ABC had a history of annual double digit of growth in earnings per share since 1960 when it became a publicly traded company. Although the growth rate of the standard payroll service industry is very low, all of ABC's business units and subsidiaries are required to achieve the 10% - 19% rate of growth, with most of the increase coming from highly differentiated services and products that are unique to the company. . ABC Inc. has annual revenue of \$7 billion while ABC Canada's is \$200 million. Since ABC Canada is a business unit of its US parent company, the parent company's financial information would give us a glimpse of ABC Canada's financial performance.

**Table 8 – Capital Structure through the Parent Company**

Financial Analysis	FY 03	FY 04	FY 05
P/E ratio	20.12	27.11	26.29
Earnings per share (USD)	1.68	1.56	1.7
Return on Equity	28.5%	26.5%	N/A

The earnings per share and the return on equity is high and has remained fairly constant in the last three years, while the price-earning ratio has increased from 2003 levels (Table 8).



### 3.4.2 Performance Ratios

The growth of revenue and net operating income continues to be strong as per Table 9.

The growth of net operating income is more dependent on cost than new sales.

**Table 9 – Growth of Revenue and NOI**

	FY04	FY05
<b>Growth of Revenue</b>	4.7%	9.4%
<b>Growth of NOI</b>	16.1%	12.5%

Growth from the previous year

An analysis of expenses gives us a good indication as to the expense per category as a percentage of total expenses or as a percentage of total revenue in Table 10.

**Table 10 – Expenses (% of Total Expenses)**

Expenses	FY 03	FY 04	FY 05
Service	15.8%	15.5%	16.0%
Implementation	3.8%	3.9%	4.2%
Technology & Production	34.3%	35.5%	33.1%
Finance & Banking	12.0%	11.4%	10.8%
Facilities	6.4%	6.6%	5.9%
Sales & Marketing	12.3%	11.4%	12.3%
Human Resources & Training	3.1%	3.8%	3.6%
Non Payroll Services	2.3%	3.1%	4.1%
Product Management	0.8%	1.2%	1.9%
Amortization	8.0%	7.9%	7.1%
Licenses/ Other	1.0%	-0.5%	1.0%
<b>Total Expenses</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Table 11 shows the profitability of the company with profit as percent of total annual sales. ABC Canada's annual revenue is over \$200 million, which represents roughly one quarter of the annual revenue. The trending on Table 12 also reveals the company's effort to cut costs to increase profit as the cost of goods sold over sales has decreases over time, while the administration and sales cost over sales has increased slightly.

**Table 11 – Performance Ratios**

Performance Ratios	FY 03	FY 04	FY 05
Profit/ Sales	22.1%	24.5%	25.3%
COGS/ Sales	65.2%	63.1%	61.4%
Admin/ Sales	12.7%	12.4%	13.3%

Profit = Net Operating Income

ABC Canada’s growth of revenue is far ahead of its major competitor as per Table 12. Another important variable that affects the company’s profitability is short-term interest rates. As per Table 2 in the first chapter, the interest earned on funds not yet remitted accounts for about 24% of total revenue in 2004, despite low interest rates. If the short-term interest rates that are normally tied to the prime rates set by the Canadian Central Bank and the US Federal Reserve were back to the level of the year 2000, ABC Canada’s revenue would be even higher.

**Table 12 – Revenue Growth Compared to Major Competition**

Growth of Revenue	FY02	FY03	FY04
ABC Canada	4.5%	6.3%	4.7%
Ceridian Canada	0.0%	1.6%	1.6%

### 3.4.3 Key Measurements and Drivers

The key measurements and drivers as per Table 13 are the factors that have both short-term and long-term impact on ABC Canada’s profitability. “New sales” refers to additional products and services purchased by new or existing clients, while client retention rate represents the number of companies that are still using ABC Canada’s products and services compared to the same time a year ago. Implementation quality is a qualitative measurement based on client feedback surveys. Service quality is determined by the combination of quantitative call statistics and qualitative measurements from client feedback on the semi-annual surveys. Total start represents the total new revenue earned from clients after implementation. A lag time exists between new sales and new starts because new sales do not generate revenue until clients are implemented. Total loss refers to revenues loss as a result of clients leaving ABC Canada.

Associate retention represents a percent of total number of employees that have left and been replaced by the company.

**Table 13 – Key Measurements and Success Drivers**

	FY03	FY04	FY05
New Sales (% of Revenue)	10.2%	10.6%	9.8%
Client Retention (% of clients)	92.1%	92.7%	93.8%
Implementation Quality	73.0%	81.0%	81.0%
Service Quality	78.0%	80.0%	82.0%
Total Starts (% of Revenue)	11.7%	11.3%	10.8%
Total Loss (% of Revenue)	7.4%	6.8%	5.5%
<b>Net New Business</b> (% of Revenue)	4.3%	4.5%	5.3%
Associate Retention(%)	91.7%	93.2%	92.0%

Associate retention is presented on an annualized basis, excluding Sales.

New sales dropped in FY 05, but other factors such implementation and service quality have increased to compensate for a decrease in new sales revenues. The quality of implementation is revealed through the number of total starts, while the quality of customer service reduced the amount of lost revenue from losing clients. This increases new revenue compared to FY 04, even though the percent of new sales to the annual revenue in FY 04 was higher than that of FY 05. Associate retention, excluding sales professionals remains positive.

A possible issue with these key measurements is that implementation and service quality can only be improved to a certain point at which point the total start and total loss would no longer be affected by the quality of implementation and service. At this point, additional revenue from new and existing clients would then become the driver for future revenue growth.

### **3.4.4 Conclusion**

ABC Canada's profitability is greater than its main competitor. The company's capital structure is very conservative in that it invests funds from clients that are not yet remitted into short-term securities, and ABC has no debt. In the midst of low interest rates, it is still able to

grow revenue and profits at a consistent pace by tightly controlling the quality of implementation and service. As soon as the interest rates start to climb, ABC Canada’s profitability would be greatly enhanced because its float revenue represents one quarter of the current revenue, which is almost the same as its profit. If interest rates were to double, the float revenue would also double without any increase in expenses and profit will increase dramatically. The following table shows the company’s potential performance ratio if the interest rates were doubled.

**Table 14 – Performance Ratio if Interest Rates were doubled**

Performance Ratios	FY 03	FY 04	FY 05
Profit/ Sales	37.0%	39.0%	40.1%
COGS/ Sales	52.7%	51.0%	49.8%
Admin/ Sales	10.3%	10.0%	10.8%

Profit = Net Operating Income

## 4 ISSUES

ABC Canada's financial performance seems promising, as the profit per sales has increased slightly each year for the last three years, while the cost of goods per sale has decreased. Despite the less than satisfactory new sales results in FY05, the company had another record year resulting from its ability to generate new revenue from new or existing clients. It seems contradictory that the sales results are less than satisfactory while the company has another record year because new sales do not generate profit until they are implemented into ABC's support system.

A contributing factor was the improved implementation and service quality, which ensure that clients are properly implemented into ABC's IT infrastructure and less likely to use substitutes such as in-house systems. In other words, the "new sales" decreased in FY05, but the quality of implementation increased to allow a higher percentage of sales to be achieved. The quality of customer service has also improved so that a higher percentage of existing clients are retained. The result of the improved implementation and service qualities contributed to the increase of sales revenue despite of the less than satisfactory sales result.

However, implementation and customer service quality can only reach a certain level beyond which a client's departure to other systems may be a result of changes in the macro environment or a client's business strategy rather than poor service. If it were not for the continuous improvement in the quality of implementation and customer service in FY05 over the previous year, the company would have experienced negative growth. In order to achieve the double-digit growth demanded by its parent company, the growth of revenue cannot be sustained

by the quality of implementation and customer service alone, but it will rather depend largely on the success of its sales professionals who generate greater incremental sales from new or existing clients.

Although ABC Canada has another record year in net operating income, there are a number of issues that would undermine the company's profitability in the long run: the retention of sales professionals, the centralized decision making process, and the service model of managed services. Aside from these issues, the small business market segment has great potential for growth due to ABC's low 2.5% market penetration rate.

#### **4.1 Organizational Hierarchy**

The current hierarchical organizational structure of ABC's sales force represents a cost-based strategy that conflicts with a pull strategy of the direct sales force. Although the current structure works well with sales force for the existing small business and mid- to large-accounts, it has negative impact on the performance of the new business sales force. The current direct sales force structure aligns with a differentiated strategy that is at odds with the company's dominant cost-based strategy. The existence of this differentiated strategy of the direct sales that is different from the rest of the organization is troublesome.

The current organizational structure of the sales force is hierarchical with the VP of Sales heads the department and he reports to both the president of ABC Canada and the Senior VP of Sales of ABC International. The next rank within the sales force is the Area Vice Presidents who are in charge of each of the three sales regions, then the sales directors that manage either the national account sales force or several other sales managers, and finally the sales managers that manage the sale associates. Each Area VP has one or two directors and four to six sales managers, one or two them managing a regional small -business inside sales force. Each sales

manager is responsible for hiring, training, and assisting five to eight mid- to large-account sales associates or 10 to 15 small-business inside sales representatives.

Under such an organizational structure, the direction of the sales force is dictated by the VP of Sales and communicated through the area VPs to their directors and sales manager and finally to the sales associates. The problem with such a long chain of command is that the information about the market conditions that flows from the sales associates to the VP of Sales may become distorted along the way and the changes of organizational direction from the VP of Sales may be misunderstood by the time it reaches each individual sales associate. Furthermore, each layer of management has its own agenda that may not be in the best interest of the whole organization.

## **4.2 Retention of Sales Force**

The first issue that surrounds the sales force is the retention of high performing employees. Low retention of performing sales professional is a problem. Excluding the sales managers in the small business market segment, only 30% of sales managers have been in their role for more than three years. The compensation structure is also a challenge as it disregards the fact that selling to new clients is much harder than selling to existing clients. This company's failure to recognize the difference between the costs of generating revenue from new versus existing clients contributes the imbalance of the compensation to the sales force. Consequently, a larger proportion of new business sales people under perform compared to the sales people targeting existing businesses.

The compensation structure is composed of a base salary and a variable compensation of commission or an annual bonus. The mid-point of a base salary is determined by benchmarking with companies that are in the for-profit sector, not just high technology or IT companies. The company's HR policy only allows the employees that have achieved sales targets for at least five

years to be compensated with a base salary at its mid-point. This means that existing business sales people on average have a much higher base salary because they have been around longer than the new business sales representatives.

Another issue that affects the retention of high performers is the company's decision-making process. The top to bottom approach in deciding on changes often frustrates both the sales representatives and the managers. For instance, the sales executives have decided to add more specialized sales people in TLM (time and labour management solution) and Managed Services (the full payroll outsourced services) in each region in order to generate more sales revenue. Assigning TLM sales representative to target only the existing clients is worthwhile because the current TLM penetration rate to the existing client base is less than 3%. The addition of this role helps the company to not only generate more revenue, and to successfully implement TLM to existing clients but also strengthens business relationships by creating an even greater lock-in effect, which in turn lengthens the clients' lifetime value with ABC.

However, the decision to add Managed Services sales representatives lacks consideration of the current structure of the sales force. The nature of this new assignment requires that the Managed Services sales people actively look for new clients in sales areas that are already targeted by other new business sales people, creating rivalry amongst sales representatives. Conflicts between sales people can be resolved by allowing the new business sales representatives refer potential prospects to Managed Services sales representatives for a 30% share of revenue and vice versa. However, unless prospects strictly request fully outsourced payroll services, it would be more advantageous for the new business representatives to sell traditional payroll processing bundled with other products and services so they can retain 100% of the sales revenue. A lack of incentives for cooperation between the different sales representatives further endangers the retention of high performing sales professionals.



One of the reasons Managed Services sales representative roles was created was due to the lack of willingness of the Managed Services department to train all sales representatives to sell its services to new clients. Another reason is that not everyone in the sales force is fit to present such high-end business solutions and therefore, by assigning qualified sales people, the company can earn more revenue by selling high-priced solutions. Although this rationale is theoretically correct, such a sales role is meant to fail if management is unable to resolve the potential conflicts that would arise from a lack of incentives for new business sales representatives to refer clients to Managed Services sales people.

Another problem inherent in most sales organizations is that an increase in sales quotas after each successful year is disproportional to the increase in base salary, resulting in the sales people working harder for less pay. Ultimately this discourages sales representatives from over-achieving because of poor management and a lack of understanding of the capability of the sales force. A “killing the goose that laid golden egg”-approach results in a loss of high performers, who may feel that the company is taking the advantage of them.

### **4.3 Centralized Decision Making Process**

The centralization of different departments creates efficiency, but it often creates a lack of coordination between departments. The criteria used to measure employees’ performance is different from department to department, which often causes a waste in resources with employees trying to maximize what is in their best interest, which is not necessarily in the best interest of the company or even the clients. For instance, the creation of TLM sales specialist in each region, along with aggressive TLM sales quotas for FY06 should increase the workload of implementation specialists but the implementation and customer service resources for such TLM products remains status quo even when the implementation backlog for current TLM clients is already longer than acceptable. The TLM department’s business objective is cost control while

the sales department's is business and revenue growth. A lack of resources in TLM implementation would cause a loss of both clients and revenue, causing frustration to the sales representatives whose performance is directly tied to successful client implementation.

#### **4.4 Managed Services**

Managed Services is one of the fastest growing services for the company, but its service model requires modification in order to make it profitable in the long run. The current service model is inadequate because of poor customer service satisfaction scores from client surveys compared to the traditional payroll processing services. For each client, the Managed Services assigns a team of three payroll professionals to manage all aspects of payroll: a Payroll Manager, a Payroll Administrator, and a Payroll Clerk. The communication between the clients and the dedicated customer service representatives is established with a combination of telephone and IT infrastructure. Most of the customer service representatives in this division are overworked because of the shortage of qualified staff, caused by its rapid 30% annual growth rate. An inherent problem also exists with the current service structure where each client is given a dedicated service representative. Since each customer service representative is responsible for all aspects of payroll processing for a number of clients, he or she cannot be available to more than one client at a time. Comparing ABC's regular customer service team that answers over 95% of the phone calls within the first twenty seconds, the inaccessibility of Managed Services customer service representatives in cases of emergencies contributes to low client satisfaction scores.

#### **4.5 Small Business Market Segment**

The small business market segment has the greatest growth potential for ABC Canada since the combined penetration rate by all the payroll service vendors accounts for about 6% of all small businesses. This market is dominated by in-house payroll software that is bundled as part of accounting software packages for small businesses. For ABC Canada, revenue generated

from the small business market segment accounts for about 20% of its annual revenue at a growth rate of about 4% annually. Although the rate of revenue growth in this market segment is far less than the double-digit growth of profit demanded by the parent company, it is already much higher than that of the mid- to large-business market segment (less than 1% from 2003 to 2004).

The marketing strategy for this segment is a push strategy. Unlike its US counterparts, the small business sales force reactively serves the sales prospects that have either directly inquired about the service of the company or are referred by its financial partners. ABC Canada should evaluate the potential of employing a direct sales force for this market segment because of its enormous growth potential for the company.

#### **4.6 Conclusion**

While ABC Canada has to focus on improving customer service in order to retain clients in the Managed Services, its future growth will depend on the capability of its sales organization. The main issue facing the company is a conflict between its cost-based strategy and its product and market differentiation strategy. The coexistence of these two distinct business strategies requires special attention from the senior executives in order to retain performing sales professionals who will drive the company's future growth to meet the targets set out by the parent company. The small business market segment has great potential and therefore, also deserves the attention of ABC's executives to prepare the company for growth in this market.

## **5 RECOMMENDATIONS**

As identified in the value chain analysis, the company's value chain is unable to fully capture the competitive advantage because of the lack of a competent performing direct sales force. In order to resolve the issues with the performance of its sales force, a fundamental change in ABC's strategic approach to managing its sales force is required. This will involve a restructuring of the organizational structure of the Sales Division, making it less hierarchical, more autonomous in the decision-making process for each sales region, and adjusted to be more competitive in terms of compensation without compromising the current cost structure of the sales organization.

A restructuring of the service model provided through the customer service of Managed Services is also required in order to sustain this division's annual growth rate of 30%. As the products and services that are bundled with payroll services diversifies, a separate group of customer service representatives must also be trained for the company to provide adequate support and services to its clients. Such highly skilled employees should be managed differently from the current customer service teams in order to make them more responsive to clients needs. In this way, the company's value chain can fully capture the competitive advantage as indicated in the industry analysis.

### **5.1 Restructuring of the Sales Force**

The current hierarchical organizational structure of ABC's sales force represents a cost-based strategy that conflicts with a pull strategy of the direct sales force. Although the current structure works well with sales force for the existing small business and mid- to large-accounts, it has negative impact on the performance of the new business sales force. In order to improve the

performance of its sales force, a differentiated strategy should be pursued, where the sales organizational structure becomes less hierarchical and the decision-making process is decentralized to give autonomy to each sales region within the country.

### **5.1.1 Restructure**

In order to resolve this issue, the hierarchy must be flattened through the elimination of Area VPs and Sales Managers. Often, the area VPs function as planners, playing the role of monitors in ensuring that their directors and sales managers are performing their duties according to the regional business plans. The Area VPs also have the final authority to hire new sales associates. However, because the Area VPs are not normally directly involved in sales processes with the new business sales associates, sales managers are often frustrated with their business decisions due to a lack of understanding of issues that surround the sales force members. As a result, decisions made by area VPs greatly impact the performance of each regional sales force. Quite often they merely serve as the channel of communication between the VP of Sales in the head office and the field sales associates.

The mid to large account sales force should be managed by the regional directors. Each regional sales director should manage six to eight sales people selling to both new and existing clients. Under such a streamlined organizational structure, the market and sales information can flow rapidly without any distortion from top to bottom or from bottom up because the directors who work as mediators between the VP of Sales and the sales force are able to provide more accurate market information to the VP of sales because of their direct involvement with the sales force. The sales directors will also be able to help the VP of Sales make the right business decisions. At the same time, the VP of Sales will also have a more accurate picture of the actual performance of the sales force because the sales revenue alone may not be an accurate measure of the capability of a sales force. An increase or decrease in sales revenue may be a result of

uncontrollable economic environment or external factors and poor performance from the implementation and service departments.

More restructuring is required to reduce ABC's organizational hierarchy. The sales force should eliminate the role of existing business sales representatives who reactively solve client issues while selling additional products and services to the existing client base. Under the current structure, the existing business sales representatives are also in charge of the maintenance of client relations, but the success of this role is only measured by the level of sales revenue. The existing-business sales representatives are compensated only when they sell additional products and services to existing clients, not by their quality of service in resolving client issues or problems. Consequently, the sales representatives may neglect services that do not result in additional sales revenues. One oddity in the compensation scheme for existing-business sales people is that they are also compensated by a client's significant increase in the number of employees as if their effort and quality of customer service have contributed to it. From the clients' perspective, the so called "Account Managers" may not be trusted because they are more interested in selling than helping. In order to eliminate clients' negative perceptions, the selling of additional services and products should be left to the new-business sales representatives. Meanwhile, the position of customer service account managers should be created to service the existing clients.

Customer service account managers who focus on maintaining client relationships, resolving client issues, and exploring new sales opportunities for the new business sales force would increase revenue in the long run through client retention and the sales of additional products and services. The cost of service can be reduced by compensating the customer service account managers with a bonus as a percentage of their annual salary that is based on client retention rather than through straight commissions. When the clients request additional features and services within a product that they have already purchased, customer service account

managers should complete the required paperwork and the company should not pay commissions to its sales people. Furthermore, the company would benefit from added savings by not having to pay commission when clients have any significant increase in the number of active employees.

Cost control should be a concern of the small business sales force because of its push marketing strategy. The role of the small business inside sales force is reactive in nature since representatives merely sell small business solutions over the phone to clients that have directly contacted the company or are referred from strategic financial partners. In order to reduce costs, the small-business inside sales force should be centralized in one office. There are currently four small business sales teams in three different locations across the country. Although the small business sales force also manages existing small business clients, there is no reason that they should not centrally located in an office which has a greater number stable human resources and less expensive office space than the ones they currently occupy, especially in Vancouver, where the cost of office space is amongst the highest in the country. If all the small business representatives are centralized in one location, one director can be in charge of all the small business sales force with a few team leaders who can share some of the management burdens.

TLM (time and labour management solution) sales specialists who sell TLM products to the existing client base should be added to increase the number of payroll clients that have purchased ABC's TLM solution. Since the existing-business sales representatives have not been successful in selling TLM products to the existing client base, dedicated sales representatives that strictly target TLM products to existing clients would help to increase company's revenue and the clients' lifetime value because of the increase in client lock-in effect.

The addition of Managed Services sales specialists should be set up in such a way so that rivalry amongst its current sales force can be reduced. In fact, such a role should be like the system consultants and industry specialists who have a mirror quota that is based on the total

sales of Managed Services in each region by all the sales associates. The role of Managed Services sales specialists should be that of a specialist who assists the sales force in winning business to the company. Although it means that the cost of compensating the sales of Managed Services would be higher than the current structure, the success of managed services sales specialists would ensure the viability and long-term success of managed services department, which is already highly profitable, with significant annual growth.

### **5.1.2 Compensation**

The result of a restructuring of the sales force would result in an overall reduction in sales costs through the elimination of both the existing-business sales force and two layers of sales force management and the centralization of its entire small business inside sales force. The realized cost savings can then be utilized to compensate the direct sales force under the new structure that is more decentralized and autonomous, with a working environment where performing sales representatives have more input into the decision-making and have more incentive to stay with the company.

### **5.1.3 Assessment of Restructure of the Sales Force**

Flattening the organizational hierarchy would give the VP of Sales a better understanding of the market and sales force conditions as he manage six to eight sales directors who in turn manage the entire sales force. Business plans that reflect current market conditions can be assessed more accurately, because of the shortened chain of command which allows market information from the sales force to be heard directly by the VP of Sales. The execution of the sales business plan would also be simplified because of the elimination the two layers of management. At the same time, the sales associates would have greater input and autonomy than in the current structure. This would result in higher morale and an improved working environment. By creating an environment where the sales force and industry specialists



collaborate with each other through an appropriate incentive structure, and eliminating bureaucracy, the sales force would leverage the industry specialists to increase the sales of bundled products and comprehensive solutions.

The elimination of existing business sales associates and the centralization of small business inside sales force would result in cost savings that can then be used to compensate the new business sale representatives so that their compensation would be at par with the market standard. Thus, the retention of high performing sales associates can be increased. The creation of customer service account manager positions would enhance client relationships and explore new business opportunities for the sales force. The addition of TLM sales specialist and Managed Service sales specialist would also enhance the company's profitability and improve client retention.

## **5.2 Service Structure for Multi-Product Clients**

Although the current centralization strategy for the customer service department is important to the company as it controls cost and increases profitability, the centralized decision making process undermines ABC's differentiated product strategy through the bundling of HR and TLM products to payroll processing services. As it is, a lack of coordination between employees in different departments and the fact that each department has different criteria for measuring performance and service standards results in differences in business objectives and multiple hidden agendas from different departments within the company.

In the current service structure, implementation and customer service teams are divided into three separate groups: Payroll, HR, and TLM. The Payroll Implementation and Service department simply implements and services payroll, the HR department human resources, and TLM department time and labour management solutions. However, the implementation specialists and customer service representatives often do not understand how one system impacts

the others, even though they are tied together as one single solution to clients. This becomes a common service issue with clients that have purchased a bundle of products because they are implemented and serviced by different departments. Clients often feel that they have purchased solutions from different vendors even though they are supposed to work together as one single solution. Although ABC Canada stresses the advantage of being a one-source vendor, a lack of coordination between all different departments undermines its ability to service clients that have purchased a bundle of products.

In order to resolve this service issue, the company should create a highly skilled service team that is knowledgeable about all three products. Since such a service team would require a lot of training resources and investment for the company, representatives should be compensated above industry standards. They must be given more autonomy in a decentralized working environment where they can excel through teamwork and collaboration. The organizational structure for this group of employees should not be hierarchical like its current structure, but rather a director should be in charge of the department. The reporting structure should be a matrix where the director reports to both the VP of Implementation and the VP of Customer Service. Energetic happy employees in this department will ensure that ABC's product differentiation strategy is viable and profitable in the long run.

### **5.3 Restructure of Service Model for Managed Services**

The current service structure in Managed Services requires extensive adjustment in order to enhance client satisfaction, which is much lower than the traditional payroll services. There is a team of three service representatives that are assigned to each client: a payroll manager, a payroll administrator, and a payroll clerk. When the payroll clerk is unable to resolve issues with a client, it is referred to the payroll administrator, and then to the payroll manager. Naturally, there are many more payroll clerks than payroll administrators, and more payroll administrators than the

payroll managers in order to control costs. However, the result of this kind of structure creates service problems because when the payroll clerks are servicing clients they would not be available to any other clients, resulting in client calls being escalated to their dedicated payroll administrators and payroll manager that are even fewer in number. When clients cannot get hold of their dedicated payroll service representatives, they often try to call their dedicated payroll administrator and then the payroll manager. This structure creates a vicious cycle where most of the payroll service representatives are not available to the clients, resulting in an inefficient use of the customer service resource.

In order to improve the quality of customer service for Managed Services, the service structure of this department must be organized in a way that most client calls are taken in less than 20 seconds before a client talks to a live person on the phone, and most of the issues are resolved within a reasonable timeline, while the difficult issues are transferred to professional payroll consultants. Ideally, a team of five to ten customer service representatives should share a pool of clients so that each of them can take turns answering client calls immediately. Another team of payroll consultants should be set up to service clients that have difficult issues or problems that cannot be resolved by the front line customer service representatives within a period of time. The operation of payroll processing should be dealt with by another group of service people, who are not required to talk to clients, but focus on ensuring that all aspects of payroll processing are performed quickly and accurately for each client. As a result, the division of labour amongst all the service representatives would improve the effectiveness of customer service while ensuring all aspects of payroll processing are performed in a timely and professional manner.

## **5.4 Small Business Market Penetration Strategy**

Given that ABC Canada's weak 2.5% market penetration in the small business market segment, huge market growth potential exists. However, it is not cost effective to penetrate this market segment through the deployment of direct a sales force because of its high cost compared to the inside small business sales representatives. Deployment of a direct sales force with inside sales representatives would not work well because it would create rivalry amongst the sales force, which would be counter-productive. ABC's current push marketing strategy, which establishes strategic alliances with financial institutions, is already the most cost-effective method to drive a significant number of small business clients to ABC Canada. In order to maintain profitability by controlling costs, ABC Canada can only spend very limited resources on advertising through radios and trade magazines. Therefore, since the company does not have any cost effective alternatives to penetrate into the small business market segment, it should focus its efforts on gaining clients in the mid- to large-market segment.

## **5.5 Conclusion**

Given that ABC Canada has a cost-based differentiation strategy in providing clients with differentiated products and services through bundling of payroll processing services with HR and TLM products, maintaining long-term profitability and the double digit growth mandated by its parent company require a restructuring of both its sales force and the service model of Managed Services, and a decentralization of implementation and customer service teams for multi-product clients in order provide satisfactory services. These recommendations were based on the success factors identified in the industry analysis and the competitive advantage derived from the industry value chain analysis. A restructuring of the sales force will increase performance by reducing organizational bureaucracy through the elimination of two layers of management. Meanwhile the cost savings from this restructuring can be used to improve the compensation structure for the new-business sales associates to make it on par with industry standards. A streamlined sales force

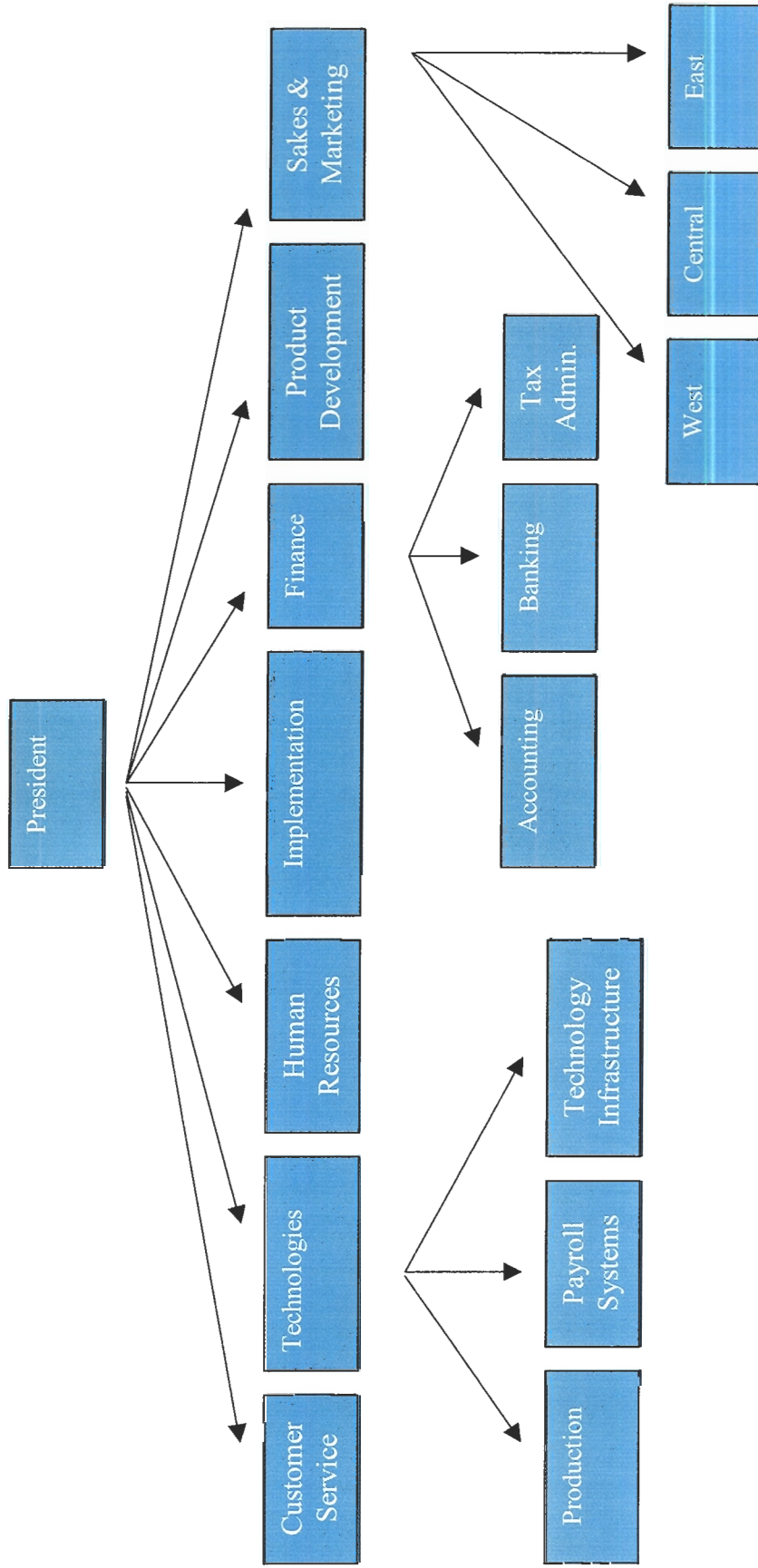
would improve its ability to gain market share in the mid- to large-market segment while the addition of customer service account managers would improve the effectiveness of client services and uncover new business opportunities to the sales force. The specialized and decentralized implementation and customer service teams for clients that have purchased multi-product services would greatly enhance the clients' overall experience, ensuring the success of product differentiation through product bundling. A restructuring of the service model in Managed Services will drastically improve the quality of client services and warrant the department's rapid growth and profitability for the company. Although the small business market has huge growth potential, an investment of a direct sales force in this market segment would not be cost-effective and thus, ABC Canada should continue its marketing effort to the mid to large market segment with the hope of further penetrating this segment with superior price and product bundles to increase the company's profitability.

## Appendix A – Firm Level Value Chain<sup>11</sup>

<b>Firm Infrastructure</b>	Strategic Planning	Legal Services	Payroll	Accounting
<b>HR Management</b>	Compensation Consulting	Recruiting	Retention	Training
<b>Technology Development</b>	Health and Services	Platform B R & D - Client Server and ASP Integrated Solutions	Platform A R & D - Client Server Software	
<b>Procurement</b>	Information Technology			
<b>Primary Activities</b>	Direct Sales Force	System Implementation	Managed Services	- Administrative Module
	Inside Sales Force	Customization	- Human Resources Advisory	- Consulting Services
	Advertising	Programming	System Operation	Printing Production
	Channel Marketing	Learning Services	Banking	Reports
	Franchise Programs		Tax Services	Courier Delivery
Banking Alliances		Financial Services	Disaster recovery	Year End Services
	<b>Sales &amp; Marketing</b>	<b>Inbound Logistics</b>	<b>Operations</b>	<b>Outbound Logistics</b>
				<b>Service</b>
	<b>Competency Scale</b>			
Excel	Good	Fair	Poor	Outsourced

<sup>11</sup> Adopted from Porter, 1985

**Appendix B – Organizational Chart**



# Appendix C – Sample Survey Forms

## Payroll Service Survey

Kindly reply within 5 days of receipt

**SAMPLE**

Please indicate here if contact name at left is not the appropriate name for this survey. Mark applicable box and list name change below

- Mr.  
 Mrs.  
 Ms. \_\_\_\_\_

Please call your client service representative with any other name or address changes.

ALL INFORMATION PROVIDED IS FOR CONFIDENTIAL USE BY ADP. CLIENT NAMES WILL NOT BE USED NOR WILL ANY OF THE SURVEY INFORMATION BE USED FOR ADVERTISING OR ANY PROMOTIONAL PURPOSES.

**INSTRUCTIONS:** PLEASE FILL IN THE NUMBER CORRESPONDING TO YOUR FEELINGS FOR EACH QUESTION. IF YOU HAVE ADDITIONAL COMMENTS, PLEASE WRITE THEM AT THE END OF THIS FORM.

Please Fill In Appropriate Numbered Response

PLEASE FILL IN APPROPRIATE NUMBERED RESPONSE

	Very Satisfied	Satisfied	Somewhat Satisfied	Somewhat Dissatisfied	Dissatisfied	Very Dissatisfied
<b>INPUT</b>						
1. How satisfied are you with the way we handle your <u>paydata input</u> for each payroll? (PC, telephone or pickup) <i>If you are dissatisfied, what are the reasons?</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/> Too difficult/complicated <input type="radio"/> Too many mistakes <input type="radio"/> Takes too much time	<input type="radio"/> Not always called at scheduled or convenient time <input type="radio"/> Other reasons: _____					(Please write detailed comments at the end of this form)
<b>ACCURACY</b>						
2. How satisfied are you with the <u>accuracy</u> of our payroll processing?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>DELIVERY</b>						
3. How satisfied are you with the <u>delivery</u> of your payroll?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>CLIENT SERVICE</b>						
4. How satisfied are you with your <u>ability to reach an ADP client service representative</u> for assistance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>If you are dissatisfied, please mark any of the following that occur frequently:</i>						
<input type="radio"/> No answer/Too many rings <input type="radio"/> Busy signals <input type="radio"/> Being disconnected <input type="radio"/> Operator not courteous <input type="radio"/> Excessive transfers <input type="radio"/> Being transferred to phone mail	<input type="radio"/> Being placed on hold for too long <input type="radio"/> Service rep not available/Has to call you back <input type="radio"/> Service rep takes too long to call back <input type="radio"/> Service rep does not always call back <input type="radio"/> Other: _____					(Please write detailed comments at the end of this form)
5. When working with our client service representatives, how satisfied are you with the service you receive?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. How satisfied are you with our service representatives' <u>knowledge and ability</u> to respond to your requests? <i>If you are dissatisfied, what are the reasons?</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/> Not enough information <input type="radio"/> Incorrect information	<input type="radio"/> Confusing information <input type="radio"/> Other reasons: _____					(Please write detailed comments at the end of this form)