A STRATEGIC ANALYSIS OF AN E-COMMERCE STRATEGY

by

Laura R. Davis
B.A., Simon Fraser University, 1994

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APPROVAL

Name: Laura R. Davis

Degree: Master of Business Administration

Title of Project: A Strategic Analysis of an E-Commerce Strategy

Supervisory Committee:

Dr. Neil Abramson
Senior Supervisor
Faculty of Business Administration

Dr. Carolyne Smart
Associate Professor
Faculty of Business Administration

Date Approved: July 27, 2004

ABSTRACT

This strategic analysis examines whether or not the subject company's decision to use e-commerce products to reach new corporate markets is a sound strategy, if the solutions being developed are the right fit for the market, and if so, whether the company has the internal capabilities to meet its goals. In the first section of the paper, the company's history, strategy, product offerings and market share are introduced. An industry analysis is then used to analyse the state of the industry and competitive environment, highlighting opportunities and threats all industry players face. This leads into a detailed value chain analysis, which provides insight into where and how Global Forex adds value when compared with others in the industry. The industry and value chain analyses together form the basis for identifying the industry's opportunities and threats and key success factors for industry competitors wishing to be successful in this environment. The final chapter of the paper measures the company's internal capabilities against these key success factors and highlights areas of strength and weakness. Recommendations to bridge the gaps are then given.

DEDICATION

For our soon-to-be son or daughter – for providing the best of incentives and reminding me what's really important.

ACKNOWLEDGMENTS

Many generous mentors and friends have helped me through this process. First, I must thank Dr. Neil Abramson for his patience and guidance through the development of this strategic analysis. Your thoughtful and practical insights gave me a deeper understanding of the market and this company. But more importantly, I must thank both you and Janet Ai of GSI for first providing the inspiration to pursue an MBA several years ago, when we were travelling the backroads of the Cariboo in search of business opportunities. You both laid down the challenge for me and for that I thank you. I would also like to thank Dr. Carolyn Smart for her final review.

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1 INTRODUCTION

Global Forex[1] is one of North America's largest independent foreign exchange dealers. The privately-held company has grown over 6,000% since its founding in 1992. Along the way, Global Forex has been recognized as one of the fastest-growing companies in its home country by Profit Magazine and has been honoured as one of the 50 best companies in its home country. With 450 employees in the United Kingdom, the United States, Canada, Australia and New Zealand, Global Forex helps small, medium-sized and blue-chip businesses compete internationally by providing foreign exchange solutions that are more flexible and affordable than those provided by banks. Although the company's growth was initially fuelled by the expansion of its retail branch network (primarily offering currency exchange services to tourists), today the majority of revenues are from corporate foreign exchange services. Global Forex has over 75 offices around the world that provide services to 45,000 corporate clients.[2]

Much of Global Forex's growth in the last ten years has taken place through a localization strategy, where local teams of traders offered basic foreign exchange products and services to both retail (tourist) and small and medium-sized enterprise (SME) markets through a branch network. In addition, the company developed a small e-commerce tool for online trading, Product 1, which served the home consumer and SME market on a small scale. The company primarily competed on cost, but also differentiated itself through strong customer service. As a result, Global Forex gained a reputation as a customer-oriented organization that could always beat the foreign exchange rates the banks were offering.

This strategy proved quite successful, and continues to support the company in retail and SME markets. However, in the last few years Global Forex expanded its strategy to facilitate further growth and to deal with rising infrastructure costs. To enter international corporate

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[1] Pseudonym to protect company privacy.

[2] Global Forex. *2003 Corporate Profile*. (Global Forex,. 2003), 1-10.

markets, the company's management realized they needed to do three things: increase internal transaction processing capacity, centralize more activities at head office, and develop robust e-commerce products that add value to customer operations. Because of this, Global Forex made the strategic decision two years ago to develop a completely new banking system for backend operations and use this system to launch two new e-commerce products for the corporate market: Product 2 and the to-be-developed Solution X. These products are intended to be the foundation of the company's strategy to become the dominant brand name in the foreign exchange industry, as they will give salespeople access to markets that were previously out of reach and increase internal capacity. The company is already well into the implementation of this strategy, and has begun to deploy Product 2 around the world.

This strategic analysis examines whether or not Global Forex's decision to use e-commerce products to reach new corporate markets is a sound strategy, if the products being developed are the right fit for the market, and if so, if the company has the internal capabilities to meet its goals. In the first section of the paper, the company's history, strategy, product offerings and market share are introduced. An industry analysis model is then used to analyse the state of the industry and competitive environment, and determine whether or not the market supports Custom House's strategy (and the company's products). Opportunities and threats all industry players face are highlighted. This leads to a detailed value chain analysis, which provides insight into where and how Global Forex adds value when compared with others in the industry. The industry and value chain analyses together form the basis for identifying the industry's opportunities and threats and key success factors for industry competitors wishing to be successful in this environment. The final chapter of the paper measures Global Forex's internal capabilities against these key success factors and highlights areas of strength and weakness. Recommendations to bridge the gaps are then given.

2 FIRM, PRODUCT AND MARKET OVERVIEW

2.1 General Business Strategy

Global Forex operates in one segment of the $USD 1.2 trillion-a-day international currency trading market. The vast majority of this trading is currency speculation transacted by the world's largest banks, brokerages and speculators – those who define currency markets, set trends and send some currencies to their doom. At the other end of the market, foreign exchange (forex) brokerages such as Global Forex transact about 10-20% of daily currency trades around the world. These deals are non-speculative, and generally the result of corporations and individuals making foreign currency payments or simple trades. Despite being a small portion of the global currency market, ten percent of $1.2 trillion is still a very large market – $100 billion USD in currency volumes. This market is also globally diffuse and protected by increasing regulatory barriers that limit market entry, which is why foreign exchange has been highly lucrative despite a history of price competition. Currently, there are a small number of players that compete on a global scale in this still growing market. Corporate foreign exchange services are the highest growth area, whereas retail foreign exchange (facilitating currency exchange for tourists around the world) is declining primarily due to the advent of automatic teller machines and other automated money transfer tools.

In the past, Global Forex's strategy was to compete primarily on cost within the small and medium-sized enterprise (SME) market, but also to differentiate themselves by offering services and flexibility not available through the banks. Although the company was highly decentralized, it none-the-less maintained a relatively low-cost structure as services provided were easily duplicated in different markets and did not require highly specialized personnel (somewhat like a franchise). During this stage of the company's growth, Global Forex developed

the e-commerce solution Product 1 as an initial attempt to build an Internet channel for foreign exchange services.

The company's strategy is now evolving to meet the needs of a more mature organization, more sophisticated clients, tighter regulatory environments, and market demands. Global Forex continues to compete on cost, but is also further differentiate itself as a responsive, full-service solution provider to businesses transacting globally, with emphasis on e-commerce solutions and customer service. Although Global Forex's traditional SME and consumer business is expected to remain strong, much of the company's future growth will be fuelled through a few key branches around the world that employ sophisticated traders with deep experience working with large, multi-national corporations in the United States, United Kingdom, Europe, and Austral-Asia. The company's new and in development e-commerce solutions are critical to expanding in these markets and will be aggressively sold by these branches to current and prospective customers – in essence, a combination bricks and mortar and e-commerce strategy. Global Forex's overall goal is to become the dominant "brand name" in corporate foreign exchange markets around the world, using e-commerce products as a key point of entry.

2.1.1 Product Strategy and Description

Global Forex's product offerings have traditionally been fairly simple – the company offered all the same financial instruments (wires, drafts, forwards, bids, electronic fund transfers, etc.) as did its competitors, and did not differentiate beyond competing on price and quality of service (either through its branches or Product 1). This strategy fit the market at the time, as Global Forex catered primarily to consumer and SME customers who were most interested in getting the best rates possible. However, this was not an effective strategy for the company to pursue in the long term as it limited the company's ability to differentiate itself and expand globally, particularly into larger corporate markets. Sizable commerce customers are not just looking for "better than bank" exchange rates, although those are important. These types of

clients want complete financial services solutions that are secure, convenient and enhance efficiencies in their internal operations – areas such as accounts payable and receivables.

In response to this, Global Forex began the redevelopment of its products two years ago, with a view to having two new e-commerce products to serve the corporate markets and one product for the consumer Internet trading market. The company is now mid-way through this development and the rebuilding of its back-end banking system. Most of the company's transaction processing functions are still running on the legacy banking system. However, a brand new payment processing product – Product 2 – has been successfully launched to corporate markets. System X, which is intended to be a full outsourcing solution, will not be launched until the legacy banking system is completely replaced. Product 1 is still running off legacy systems, but will be moved to the new banking system and rebranded in the coming year.

2.1.1.1 Product 2

Product 2 allows companies to pay accounts around the world in different currencies from one point of entry using an application service provider (ASP) model deployed through the Internet. At this time, the product only processes foreign currency payables, but when fully developed it will also process receivables. This is not a service offered by financial institutions and as such Product 2 creates a substantial competitive advantage over the banks (as they would force customers to hold and pay services charges on multiple foreign currency accounts) and some other foreign exchange providers. Product 2 is now being sold as a complementary service to Global Forex's branches services for corporate customers. The product is being used in the market by customers in a variety of industries, and plans are in place to more aggressively market Product 2 once further enhancements and the new banking system back-end are complete. This will happen incrementally between now and mid-2005. Product 2 has already helped Global Forex successfully win large corporate business around the world, and the room for growth of this channel is thought to be very strong.

2.1.1.2 Solution X

Solution X is already in development, building on a market Global Forex has already entered in a small way with its legacy banking system – ASP-based transaction processing for third parties. Through this solution (often called white labelling), Global Forex will offer back-end transaction processing services to small and mid-sized financial institutions (particularly American), foreign exchange brokerages and other payment processing organizations that do not have their own foreign currency infrastructure. This is somewhat different than Product 2's market in that Solution X will be a white label solution (that is, a full outsourcing product and service) with greater back-end capabilities than would be marketed through Product 2 (Product 2's capabilities are mostly associated with booking or receiving payments). There is substantial room for growth in this market among financial institutions and multi-national corporations. However, Global Forex cannot aggressively pursue this until the legacy banking system is completely replaced as the old system does not have the capacity to support further growth. The company has not yet planned how to brand and widely market this solution.

2.1.1.3 Product 1

Product 1, Global Forex's oldest e-commerce product, is successfully serving a combination of corporate and individual consumers. Global Forex plans to transition corporate customers to Product 2 in the coming year, and position Product 1 strictly as a consumer trading product for individual consumers needing to transfer foreign currency around the world – for example, students sending tuition payments abroad and expatriate workers sending funds home. Product 1 is currently unable to expand its market share due to the technological limitations of its legacy code. Despite Product 1's good performance for the company over the past several years, Global Forex is reviewing several problems with Product 1's business model and looking at ways the business line and product could be restructured to be more profitable and less risky. At this time, largely due to its technical limitations, Product 1 is highly dependent on a single partner

relationship for its transaction volumes. It also exposes the company to potential fraud, money laundering and regulatory violations much more than Product 2 or Solution X, because Product 1 customers for the most part are unknown individuals and entities.

2.2 Market Share and Segmentation

Global Forex operates in the non-speculative segment of the $1 trillion USD/day global currency trading market. This is the non-banking segment of the market, comprised of foreign exchange dealers and other small players who handle about 10% of $1 trillion, or $100 billion USD in daily trading volumes. Internal company data estimates Global Forex's share of this market to be 1%, or $1 billion USD in trading volumes. The company would like to increase its market share to 5%, or $5 billion in trading volumes in the next three-five years. This is an ambitious plan – implying a 500% increase in both volume of business and revenues.

There are relatively few foreign exchange dealers with global scale, and different players are stronger in some geographic regions than others. Global Forex is the largest independent foreign exchange dealer in North America, but the company is still a relatively small player internationally. However, the small number of truly global foreign exchange competitors leaves substantial room for growth. These competitors will be discussed in depth in *Section 3.6, Competitive Analysis.*

There is some direct competition between foreign exchange dealers, and they all compete directly against the banks. Competition against the banks is not intense, as banks generally view foreign exchange payments as nuisance business they would rather leave to others – in essence, they decline to compete. This is described in greater depth in *Section 3, Industry Analysis.*

2.2.1 Market Segmentation

At this time, Global Forex is just beginning to strategically segment its markets for Product 1, Product 2, and Solution X.

2.2.1.1 Product 1 Segmentation[3]

Product 1 has not been directly marketed at all in the past, as the majority of the product's customers have come through a partnership agreement with a highly visible third-party that provides the "front-end" – approximately 89% of Product 1's customers come from this partner. The remainder use Product 1's own front-end directly, finding out about it through word of mouth and referrals from traders throughout Global Forex's branch network. To date, Global Forex has not made any strong efforts to promote Product 1 other than through the single partner agreement. No data is available at this time on the partner's specific market segmentation (geographic, etc.), but we do know that approximately 12% of the customers are small and medium-sized businesses, while 88% are individuals. Of the 11% of the customer volumes that come directly through Global Forex (not through the partner), 47% are businesses while 53% are individuals. These figures do not equal Product 1's revenue split, which is approximately 50-50% between business and individual clients (see Figures 1 and 2). Note that Global Forex plans to move Product 1 corporate customers onto Product 2 over the coming year, so that the products are more cleanly segmented between business and consumer markets.

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[3] Global Forex, *Product 1 Budget Report for 2004/2005*. (Global Forex, 2004), 1-2

Figure 1 Product 1 Revenues

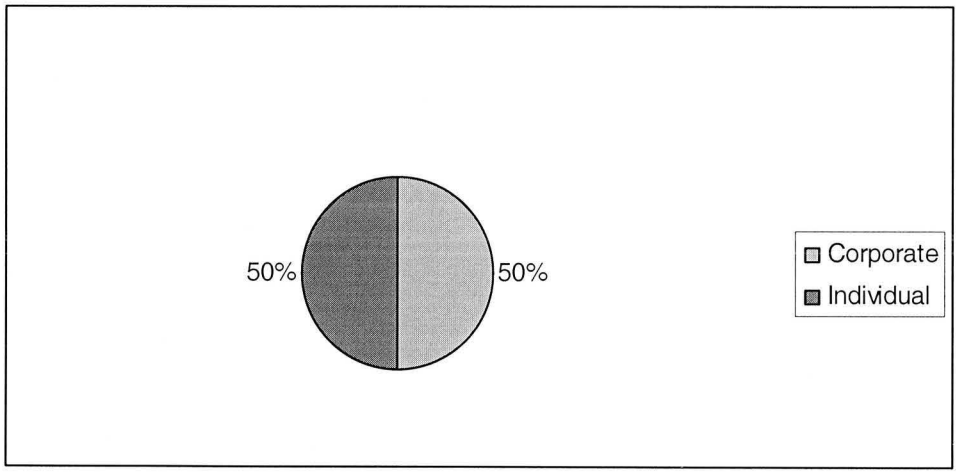
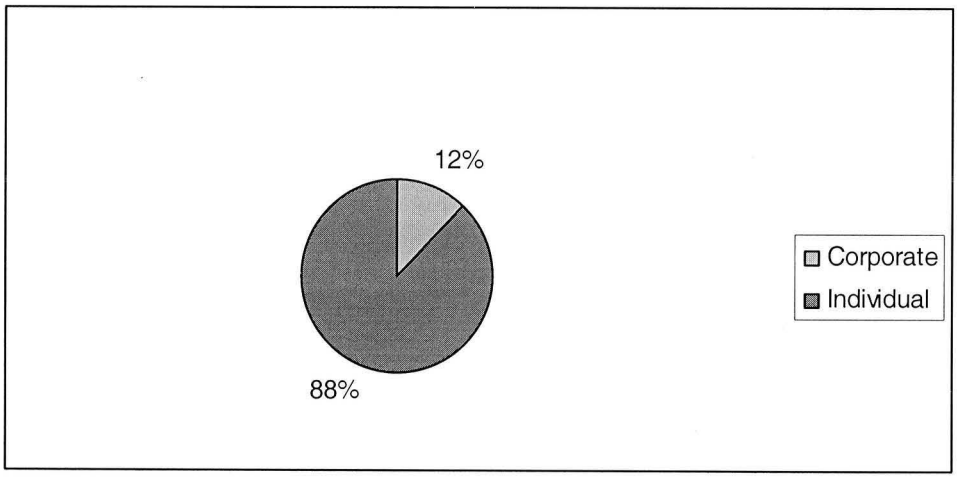


Figure 2 Product 1 Volumes

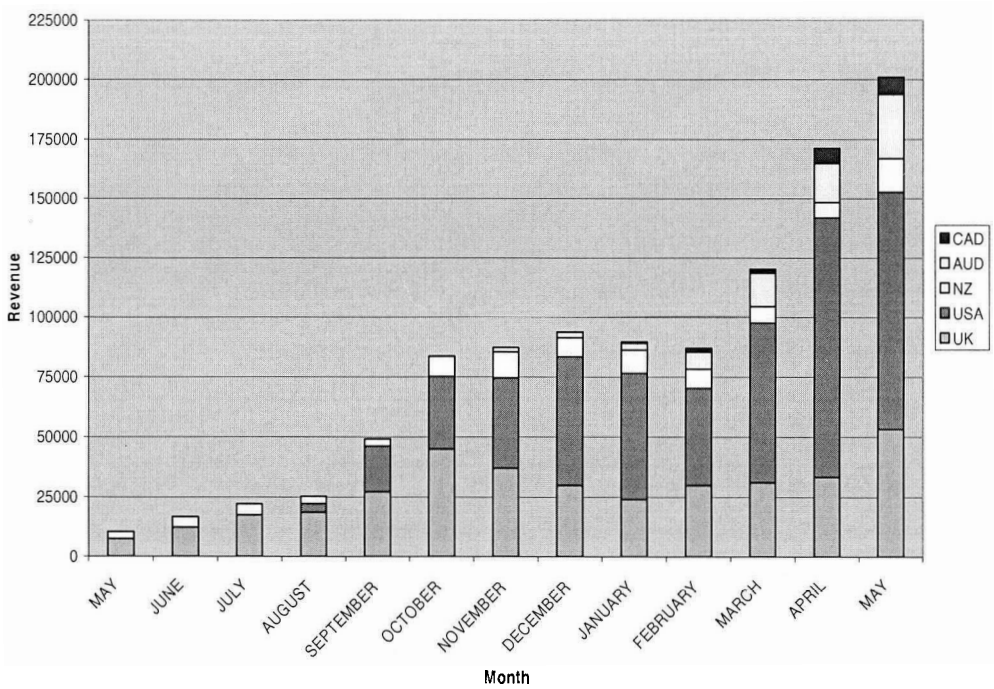


2.2.1.2 Product 2 Segmentation

As Product 2 was only launched last year, the market segmentation and targeting done to date is still preliminary. That said, the company does have several geographic markets and industries that are particularly promising. Geographic target markets include Canada, the United States, United Kingdom, Australia, New Zealand and eventually Asia. Figure 3 illustrates Product 2 revenues in 2003/2004 from around the world – the majority are from the United

States and United Kingdom. Other markets (Australia and New Zealand) are expected to grow as the product is fully rolled out and marketed in 2004.

Figure 3 Product 2 Revenue by Region 2003/2004 Fiscal Year[4]



Industry target markets include law firms, banks, reinsurance companies, multinational retailers, agriculture (including wineries), universities and freight forwarders. This list summarizes industries targeted to date, but any industry with foreign currency payments is a potential target.

Within these segments, there is a wide range of transaction volume and profitability per client. Internal segmentation data gathered over 2003, which only reflects Product 2's first 6

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[4] Global Forex. *Product 2 Revenues 2003/2004* (Global Forex, 2004), 1-10.

months on the market, provides some insight (Table 1). The financial institution sector, for example, simultaneously has the largest volume of transactions, lowest profit per transaction, and second-largest profit per individual client. Insurance, on the other hand, has a very low volume of transactions but a high profit per transaction. However, the low volumes reduce the annual profit per client[5]. Figures 4,5 and 6 illustrate these differences. As this data is preliminary and based on a small data set, the results need to be interpreted with caution. Global Forex is just starting to plan future segmentation and target marketing and results such as these will help the company target industries with the most potential for profitable customer volumes in each region. [6]

Table 1. Product 2 Segmentation Data 2003

	Total Number Transactions	**Average profit per transaction**	**Average profit per client (annual)**
Law Firms	1000	$220	$26,000
Publishers	800	$120	$26,000
Insurance	150	$590	$14,000
Financial Institutions	1900	$65	$20,000
Education	400	$360	$17,500

[5] Note that profit calculations do not take into account full transaction processing and information technology support costs using Global Forex's cost allocation method – back office functions such as Treasury and Information Technology support are not applied against revenues. As such, profits could be overstated.

[6] Global Forex. *2003 Product 2 Segmentation Report.* (Global Forex, 2003), 1-6.

Figure 4 Total Profit per Industry[7]

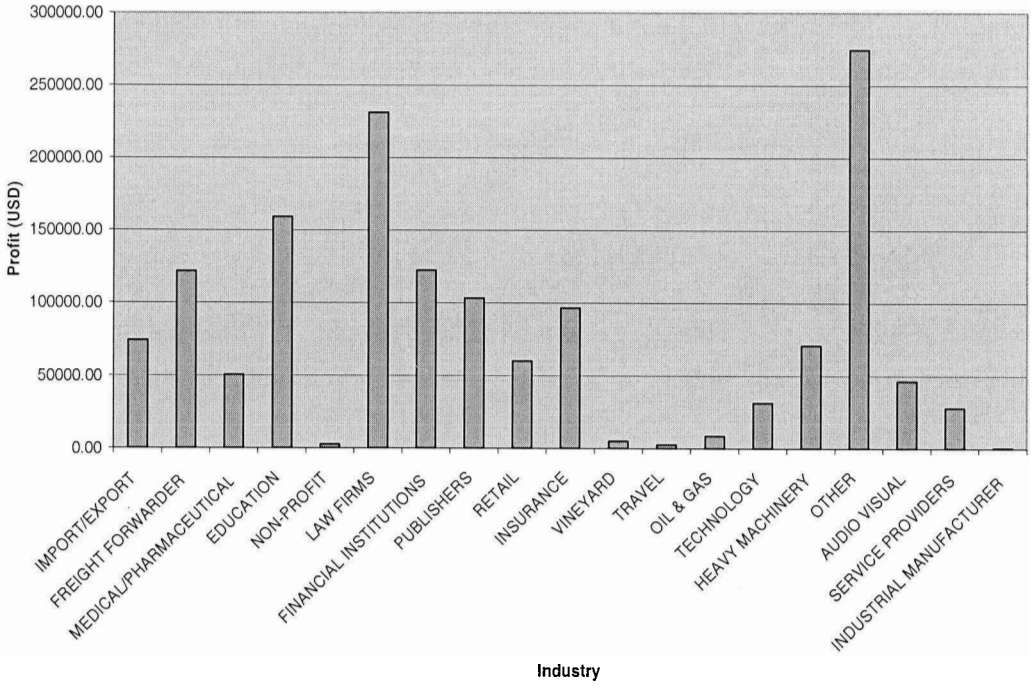
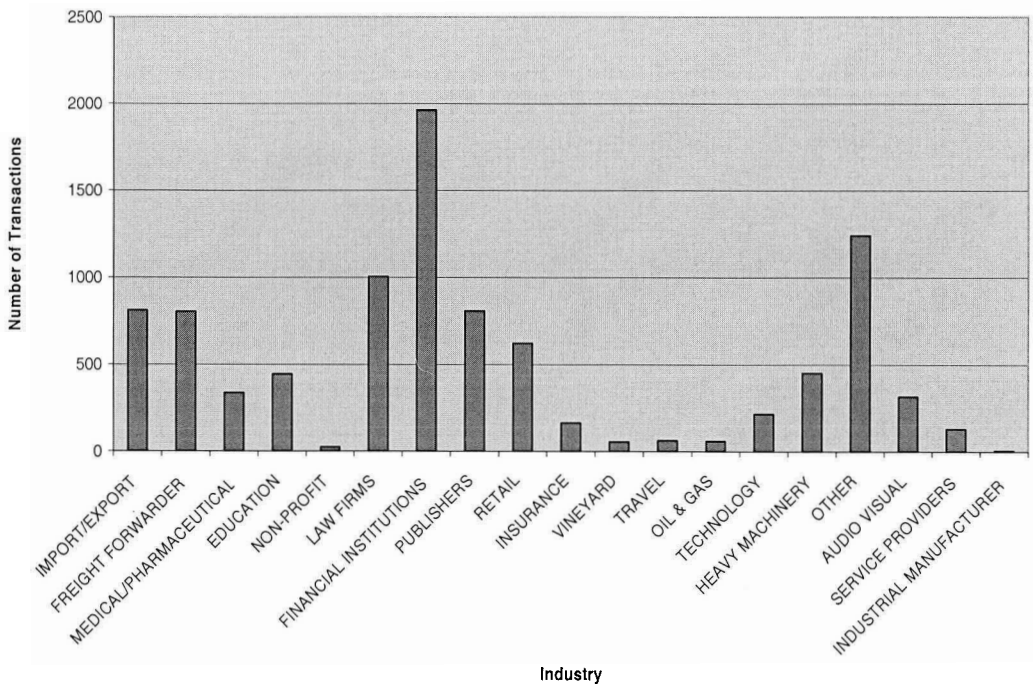


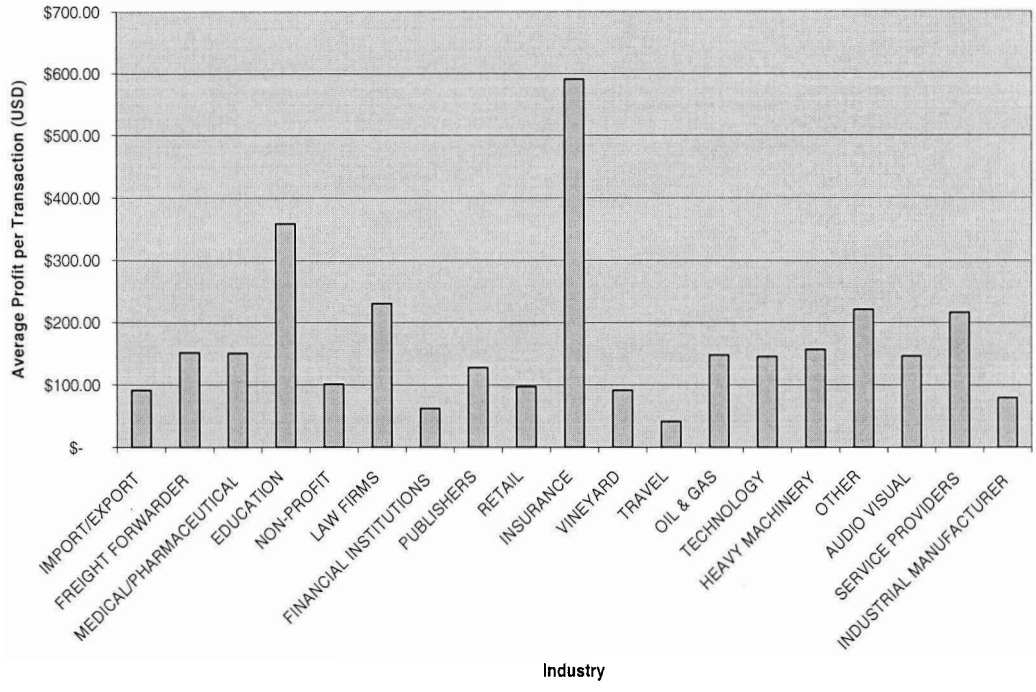
Figure 5 Transactions per Industry 2003[8]



[7] Ibid.

[8] Ibid.

Figure 6 Average Profit per Transaction per Industry 2003[9]



9 Ibid.

2.2.1.3 Solution X Segmentation

The target markets for the future Solution X have not been fully determined. However, typical customers will include small and mid-sized banks without their own global foreign exchange capabilities, other foreign exchange brokerages and multinational firms that process transactions and payments on behalf of their customers.

2.3 Pricing

Global Forex provides Product 2 and Product 1 as free, value-add products, just as banks allow customers to use online banking services without the licensing agreements and fees that might be seen with other software applications. Pricing is incorporated into each trade the company makes on behalf of a customer through the rate given to that customer. The company's profit is based on the spread between the bank rates obtained by Global Forex and the rates given to customers. Although it would help cover development costs to charge some fees for these products, the market would not tolerate this type of fee structure for these products.

The company's legacy banking system is currently used for third-party payment processing, much as Solution X will be in the future. This service is priced such that Global Forex receives 25% of the profit for each transaction processed. This fee was set to cover internal insurance, processing, development and staff costs. In the future, as Global Forex rolls out Solution X, the company may need to explore other fee structures for this product in order to cover development, ongoing maintenance costs and transaction costs – as this type of product will have higher costs than either Product 2 or Product 1.

2.4 Revenues and Costs

The majority of Global Forex's revenues at this time come from the company's branch network around the world, where traders do personalized business with corporations in various industry sectors. The company's consolidated revenues for 2003 and 2002 were £29,198,000 and £21,763,000, respectively. EBITDA was £6,019,000 and £5,672,000, respectively[10]. Revenues and profits have grown significantly and consistently since the company's founding in 1992, and the company continues to operate in a good financial position, using short-term debt only as a line of credit to finance the company's treasury (cash flow for trading activities). All operations and expansion efforts are financed through operational revenues at this time. Should the company seek to bring in greater shareholder equity (currently there is only one shareholder) or debt financing in the future, this should not be difficult given Global Forex's strong financial position and performance history.

Currently, Global Forex does not fully allocate costs from head office across the company, although the executive is looking at how this could be implemented. Although Global Forex operates as one entity, it is actually structured as several different companies in each jurisdiction in which the company does business. As such, transferring costs to the branch network can pose some problems in terms of taxation and logistics. As a result, each individual branch within Global Forex is responsible for its own profit and loss and contributes profits to the parent company. Head office absorbs most other overhead (including marketing, information technology, treasury and administrative expenses). Because of this, complete life-cycle and transaction costs cannot be applied against Product 2, Product 1 or Solution X at this time. Following is some revenue and costs data for Product 1 and Product 2. Solution X is too premature in its development and deployment to provide any figures.

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[10] Global Forex. *2002-2003 Consolidated Financial Statements.* (Global Forex, 2003), 4-7.

2.4.1 Product 1 Revenues and Costs

As Product 1 is structured as a standalone branch that promotes one product (Product 1), branch costs can be applied against the product's revenue. Note that these figures may understate the true costs of supporting Product 1 as information technology, treasury, accounting, compliance, marketing and other company-wide overhead costs are not included. In addition, it is not possible to give accurate variable costs that would increase with growth in market share, because the company does not track costs per transaction at this time.

Product 1's revenues as of the fiscal year end of April 2004 were £1,978,323. Total expenses were £1,337,302 leaving a total contribution of £641,021.Product 1 revenues have steadily grown the last several years and are projected to increase by 5% a month or more in 2004/2005, with projected revenues of £2,211,000 and projected expenses of £1,556,101. This would result in a profit margin of 30%, without taking into account the previously-mentioned head office costs that could be applied to Product 1 transactions. [11]

2.4.2 Product 2 Revenues and Costs

Product 2 is seen as a supporting product to branch selling around the world. As such, it is even more difficult to accurately measure Product 2's true costs of development, support, maintenance, customer acquisition and growth under the company's current accounting model. As with Product 1, true marginal and variable costs are not available. Product 2's revenues for the end of the fiscal year 2004 were £1,056,699.30, when it was not fully rolled out to the market.,[12]. The amount of revenue varies by region, with the UK and US bringing in the strongest numbers (see Figure 7).

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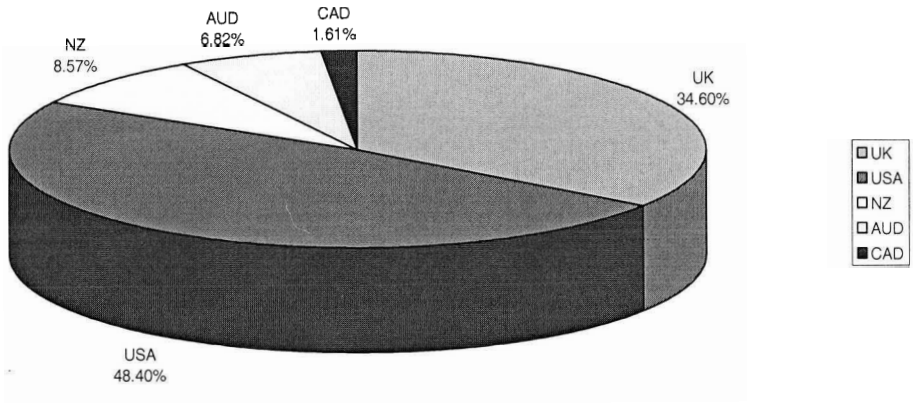
[11] Global Forex, *Product 1 Projections for 2004/2005.* (Global Forex, 2004), 4-5.

[12] Global Forex. *Product 2 Revenues 2003/2004* (Global Forex, 2004), 1-10.

Figure 7 Product 2 Revenue by Region[13]



Product 2's projected revenues are very ambitious, but do take into account moving a substantial number of existing branch customers using phone services onto the online platform as well as rapid market entry. Hence, a significant portion of Global Forex's overall expected growth based on results from the last several years is built into these projections.

Projected revenues for the next five years are (not including the first year of the product's deployment, which is now complete): [14]

Year Two – £3,000,000

Year Three – £4,500,000

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[13] Ibid

[14] Global Forex. *Product 2 5-Year Projections*. (Global Forex, 2004), 1-5.

3 INDUSTRY ANALYSIS

3.1 Introduction

This section analyses the global foreign exchange market using Michael Porter's five forces framework[15]. The framework provides a context for analyzing an industry in light of the factors that shape the ability of competitors to succeed – threat of entry, bargaining power of suppliers, rivalry among existing competitors, bargaining power of competitors, and threat of substitutes. Industries with low or moderate rankings in each of the areas are more attractive than those with high rankings. The analysis looks at the industry in the context of all three of Global Forex's e-commerce products: Product 2, Solution X, and Product 1. Any differences between the products that impact the analysis are pointed out. The analysis is broken down according to: threat of entry, bargaining power of suppliers, bargaining power of customers, threat of substitutes and a competitive analysis. The results of this analysis provide a context for identifying opportunities and threats in the industry and key success factors for competitors in *Section 5*.

Figure 8 briefly summarizes the foreign exchange industry as explained in this section's analysis. Points marked with a "+" symbol increase power, while points marked with a "-" symbol decrease power in each area.

3.2 Threat of Entry

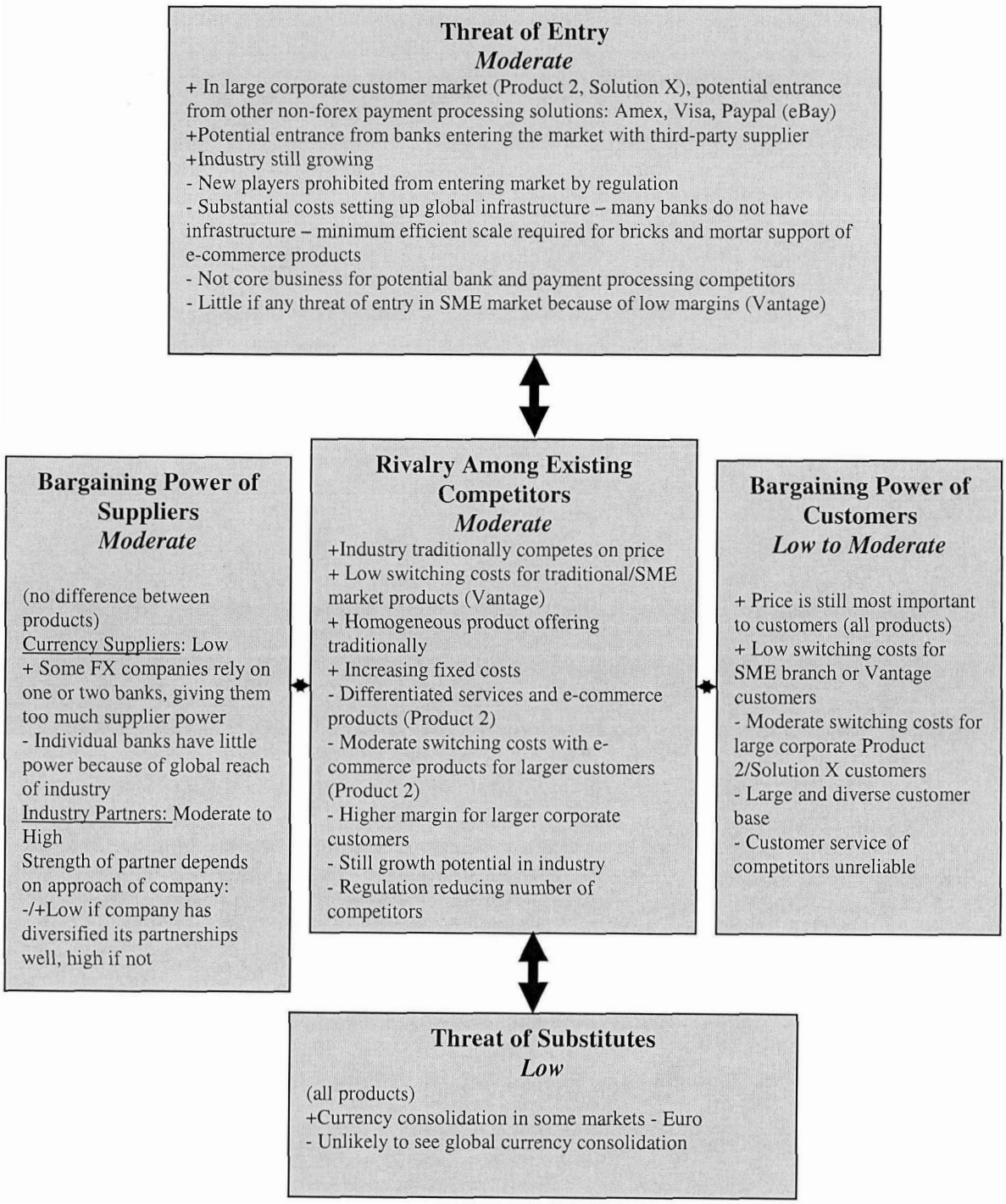
Just a few years ago, the foreign exchange industry would have faced a relatively high threat of entry given the potential for growth in the corporate services side of the industry around the world. However, two trends have dramatically changed this situation: increasing regulatory

[15] Michael E. Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review*, March-April 1979: 1-10.

barriers put in place by governments and customer demands for services that require a global scale in order to be successful.

- Year Four – £10,000,000
- Year Five – £18,000,000.

Figure 8 Five Forces Summary for Foreign Exchange



3.2.1 Regulatory Barriers

Foreign exchange is currently going through a period of government-led consolidation. This is not due to the high competition and or high costs that might spur this in other industries, as relatively few foreign exchange firms compete directly against each other due to the size of the global market. Rather, numerous regulatory barriers have been enacted by most of the G7 nations regarding cross-border transfers of funds through legislation such as the US Patriot Act and Canadian Proceeds of Crime Act. This legislation is intended to help stop the flow of proceeds of crime, prevent terrorist financing and support an intelligence network tracking the global movement of funds. Meeting legislative requirements for ongoing monitoring and reporting of transactions is an onerous task and requires substantial scale and investment by financial services organizations. Companies without the resources to make these investments are quickly disappearing by exiting the business altogether, selling to larger players, or being fined and even shut down for regulatory violations. As such, this new regulatory environment is creating an effective barrier to entry that is solidifying and protecting the position of established players such as Global Forex and even creating an oligopoly in some markets, such as Australia, where Global Forex is one of only a few competitors. The strength of these barriers is discouraging entry into the profitable corporate market served by Product 2 and Solution X, although this could still be an attractive target for many, and the products do have several competitors. Product 1 has virtually no competitors globally because it is quite a high-risk in this new regulatory environment – rules demand that foreign exchange dealers must "know their customers," which is a difficult task for a purely Internet trading product with no personal relationship or sales cycle. (Product 2 and Solution X customers are well known by Global Forex, because of the longer sales cycle and because they are generally referred through the branch network, rather than the Internet). This product does carry a risk for Global Forex as it

could expose the company to fines and penalties in some markets. Further, Product 1's customer base is primarily individuals and SMEs, which offer relatively low margins.

At the same time, the inability of some governments to effectively enforce this legislation is creating an unfair playing field. Although not reducing the barriers to entry, this could put companies that invest in meeting the requirements at a disadvantage to those who ignore the requirements and get away with it. However, this disadvantage is at best temporary as all G7 nations have a mandate to increasingly enforce these recently-rolled out requirements. While national enforcement infrastructures are still getting set up, some competitors could achieve a temporary advantage through taking market share away by passing cost savings on to customers through cheaper rates and new products and services (on the other hand, competitors that adopt these requirements could achieve competitive advantage by being able to meet the needs of security-conscious multi-national corporations).

3.2.2 Demands for Global Products and Services

The expectations of corporate foreign exchange customers are on the rise, driven by the global nature of business in many industries, and efficiencies gained by other technology solutions. For example, customers that have managed to streamline and automate their entire operations through any of the now commonly available enterprise solutions (such as those produced by SAP, JD Edwards, etc.) is demanding the same level of global service and integration from their banks and foreign exchange providers. To meet this demand, foreign exchange companies must be able to provide not just good rates, but also products and services that complement existing enterprise-level standards in areas such as accounting and increase a customer's efficiencies. Few global companies have either the scale or skill level to do this, and those that do are finding themselves protected in many markets by the previously discussed regulatory barriers.

3.2.3 Potential Entrants

The existence of strong entry barriers does not mean there are not potential new entrants that may have a strong impact on foreign exchange dealers in lucrative corporate foreign exchange markets. The largest threat to entry comes from the world's major banks. Historically, this threat has not been significant as banks typically viewed non-speculative foreign exchange trading as being primarily comprised of nuisance payments and still seem to hold this view. Banks have not shown any interest in developing products and services that allow customers to process multiple foreign currency transactions or trades from one point of entry – rather, they force customers to set up distinct foreign currency accounts, if they will even process foreign currency payments. Bank foreign exchange rates to customers are also consistently priced above rates offered by foreign exchange brokers.

However, as the corporate foreign exchange industry continues to grow and foreign exchange dealers take greater market share away from the banks, it stands to reason that financial institutions could reconsider their position in the future. Mid-sized banks, particularly regional American banks, are not potential competitors as they simply do not have the international scale or resources to offer effective foreign exchange services – these organizations are typically the customers or partners of foreign exchange dealers (although, the merger of several of these banks could create a competitor). However, large international banks such as the Citibank and ING are potential threats.

When looking specifically at e-commerce solutions for foreign exchange, a second threat to entry comes from third-party service providers that offer payment processing and technology services to banks and merchants, or directly to consumers. The substantial room for growth in the corporate foreign exchange market presents an attractive opportunity to those who could establish a presence in the market in partnership with organizations that have an existing customer base and infrastructure that surpasses regulatory barriers. If an e-commerce solution

provider could offer banks enough cost savings or efficiencies to warrant outsourcing or partnering on foreign exchange, this could create a significant threat to foreign exchange dealers. Although not yet facilitating direct competition with foreign exchange dealers, application service providers such as Cognotec are appearing on the market and offering foreign currency transaction processing to banks on fairly attractive terms – the banks only pay when they make money on a deal. In addition, other service providers to the financial services industry such as CGI, Sanchez Computer Associates and Datawest have substantial market share in the financial services industry, built around providing core, application service provider (ASP) and other solutions to the industry. Although none of these companies offer an e-commerce solution to support foreign exchange at this time, it is possible they could easily add this on to their existing solutions if they felt there was a strong opportunity. Similarly, companies that provide consumer payment services such as PayPal (now owned by eBay) could conceivably move into the foreign exchange market by developing the partnership network necessary to process foreign exchange payments for the financial services industry – eBay has already moved into the credit card market. Finally, payment processing companies such as American Express and Visa, who have offered retail currency exchange services in the past, could become a powerful new entrant to this market if they chose to do so, as they already have a global brand and infrastructure in place.

As of yet, none of these competitors have shown any interest in making this type of move, likely because they would need to adapt their business to the stricter regulatory regimes that apply to currency trading (rather than their core businesses) and because of the relatively low margins in the traditional corporate foreign exchange market of SMEs. If companies like Global Forex are increasingly successful in the larger, higher-margin corporate market, this could motivate these potential competitors to enter.

3.2.4 Opportunities and Threats

In summary, the first major threat of entry is that large, international banks may decide to move into the nuisance payment business within the corporate foreign exchange market if it becomes more attractive from their perspective. They could be motivated by the profits foreign exchange firms are earning, and entry could be facilitated through partnerships with technology service providers that would create and implement an e-commerce service on the bank's behalf. To counter this threat, foreign exchange companies should look at the opportunity presented by banks, and seek to build partnerships with those interested in foreign exchange. Companies such as Global Forex could effectively pre-empt any partnerships with service providers because of the global infrastructure and experience they have to offer.

The second threat comes through brand name, consumer payment services (such as Visa or American express) moving into the corporate foreign exchange market with technology partners. To best counter this threat, foreign exchange companies should build and entrench their market share as best as possible at this time. Sophisticated e-commerce solutions that create switching costs for the corporate market will help protect against entry by both banks and payment companies.

3.3 Bargaining Power of Suppliers

There are essentially two suppliers to the foreign exchange industry: financial institutions that supply foreign currency to foreign exchange dealers and companies that supply customers to foreign exchange companies through partnerships. Suppliers of foreign currency have moderate power, as they can essentially turn off the tap if they so choose. However, this power is at best temporary due to the global nature of the market. Companies are not restricted to dealing with any one financial institution, and can replace them if necessary. If a company is

overly reliant on one bank as a currency supplier and therefore vulnerable, that is due to a lack of strategic planning on their part.

Similarly, industry partners can have a great amount of power, but only if a company allows this. For example, Global Forex's partner for Product 1 carries an extraordinary amount of power in the business relationship as they send the majority of customers to Product 1, and the company is not able to create other partnerships to balance this until back-end capacity is improved.

3.3.1 Opportunities and Threats

The largest threat in this area is created by foreign exchange dealers themselves when they put "too many eggs in one basket." To counter this threat, they must diversify their banking and partner relationships. A related opportunity to this is building a variety of partnerships to market e-commerce products.

3.4 Bargaining Power of Customers

Switching costs for customers in the foreign exchange industry have traditionally been very low – foreign exchange companies have typically dealt with SME and individual customers who were usually looking for the best rate, followed by good service. However, the growth of the industry into the large corporate market and the evolution of technology widely used in a variety of industries have changed this. Whereas switching costs were previously quite low, giving customers high power, they are now increasing due to the introduction of technology-based solutions in foreign exchange. For example, if an import/export firm has several months of transaction data logged with a foreign exchange dealer's e-commerce solution, and has integrated its accounting systems with that data, it is much less likely to jump to another dealer offering a marginal discount on rates. That said, this is still a highly price-sensitive industry, and a dealer can never price themselves (i.e., through their rates) above what the market warrants. It is also easier to create switching costs for corporate customers using solutions like Product 2 than it is

for individual consumers using Product 1, as individual consumers are more price sensitive and less sensitive to switching costs.

Customer power is currently limited by the size and diversity of the market for foreign exchange dealers. Although individual customers can indeed have strong power, foreign exchange dealers are not limited to any one industry sector or geographic market. If a dealer is in a situation where their customers have too much power, it is likely because they have done a poor job of strategically planning what types of customers they go after and whether or not their business volumes are concentrated with one customer or spread across several customers. The leading companies all strive for highly diversified client bases.

3.4.1 Opportunities and Threats

As with the bargaining power of suppliers, the largest threat to foreign exchange companies in this area comes from their own lack of strategic planning and sales strategies. Companies with well-conceived sales strategies aimed at diversifying customer bases in regional and global markets should be able to greatly reduce the power of any one customer or any one type of customer.

For corporate customers, foreign exchange dealers have the opportunity to increase switching costs by introducing technology products with a strong value add for the customer. For individual customers using products like Product 1, switching costs can also be increased by introducing value-added services through partnerships. For example, Product 1 could be partnered with Internet-based travel services such as Travelocity, or with large consumer portals such as Yahoo and MSN.

3.5 Threat of Substitutes

The threat of substitute products and services is quite low in this industry. Although cash may be replaced by smart cards or another form of digital money in the future, it is still unlikely that this will displace national currencies – they will just be delivered through a different vehicle.

Although not a substitute product per se, the threat of currency integration is somewhat larger for foreign exchange dealers. For example, if the UK were to adopt the Euro, it would have a substantial, negative impact on Global Forex's business. The same could be said of many of the European dealers trading Pound Sterling for Euros if the United Kingdom was to drop its currency. Both of these scenarios are unlikely in the near future (five years), although possible over the long term depending on the political forces ruling the day.

3.5.1 Opportunities and Threats

If currency integration were to happen, foreign exchange brokers would need to adapt their strategy in order to survive, as most, if not all rely on the point spread between the discounted rates at which they buy currency and the rates at which they sell currency in order to make a profit. In an era of "consolidated currencies" new revenues streams and corporate structures would need to be sought out, such as value-added services through transaction and payment processing, insurance, credit and other services.

3.6 Competitive Analysis

Traditionally, the foreign exchange industry has competed with the banks on price as opposed to competing with each other due to the size of the market. This competition has often been easily won as the banks have declined to be an active competitor in this market and have usually been happy to give up what they consider to be "nuisance payment" business and instead focus on speculative trading and hedging. Most banks (at least those with a global infrastructure) offer wires, drafts, and some form of foreign currency transfer. A few banks may sell forward contracts (currency hedging) through their brokerage services. However, banks simply do not approach foreign exchange as a unique line of business and they will not facilitate multiple foreign currency transactions from one account – rather they force the customer to set up multiple accounts in different currencies and pay service charges on each account. Banks also do

not offer e-commerce payables and receivables solutions such as Product 2, third-party transaction processing solutions such as Solution X, or online trading programs like Product 1. As a result, in spite of the fact that products have been relatively homogeneous and switching costs very low, the industry has not experienced intense competition as the various players have taken easy business away from the banks through a loose bricks strategy and focused on geographic, ethnic or other niche markets instead of competing aggressively against each other.

This situation is evolving. Mid-sized and larger currency dealers are competing more aggressively with the banks in their regions (although the banks still decline to compete in return) *and* each other by further differentiating themselves and their services from the banks and offering full payment solutions that customers can use through the Internet. Ease of use, security, accuracy, speed, market analysis, confirmation and tracking have all proven to be characteristics of these products that offer the most value to customers, and key to foreign exchange companies effectively differentiating themselves and their products. These technology-based trading products offered by foreign exchange dealers are still far from homogenous, with many focusing on different areas of specialty or regionally-specific solutions. It is safe to say that the foreign exchange industry (in terms of payment solutions) is in a similar position to the banking industry a few years ago with its consumer products – online products are just arriving on the scene, and no one player yet dominates the market. The player that most successfully rolls out their value-added, e-commerce solutions to the corporate market could emerge as the global front-runner for many years to come, just as TD Canada Trust still has the largest market share of online banking customers in Canada.

3.6.1 Market Share

Global Forex is the largest foreign exchange dealer in its home country, and is one of the largest in North America, but it has not yet reached the scale of international companies like Competitor One. There is still a spate of smaller companies around the world serving specialized

markets, but these are rapidly disappearing. On the surface, one would expect that this consolidation would result in greater rivalry and competition (note the consolidation is due to regulatory barriers that demand scale – not a declining market). However, the estimated size of the market ($100 billion USD in non-speculative currency trading) and relatively small number of players still leaves a great deal of room for growth even with intensified competition. There are five international non-bank competitors to Global Forex. Only three of these competitors offer e-commerce solutions to rival Global Forex's. This analysis focuses on these three, which are called Competitor 1, Competitor 2 and Competitor 3 to protect Global Forex's confidential position in the market.

3.6.2 Competitor One

Competitor One is the world's largest currency dealer, with interests in a wide variety of business activities including bureaux de change operations, traveller's cheques, travel agencies, prepaid cards, automatic teller machines, commercial foreign exchange, third-party outsourcing, travel insurance, retail foreign exchange, wholesale banknote and foreign coin businesses. It is the only foreign exchange competitor that is currently publicly traded, and as such the most information is available on this competitor.

Competitor One was founded in 1976 in the United Kingdom and has offices in 31 countries around the world, allowing them to operate in diverse geographic markets including Australia-Asia, Hong Kong, New Zealand, Singapore, South Africa, the United Kingdom, the United States, and Canada. The company processed £465,509,000 in foreign currency volumes throughout its business lines in 2003, with £59,838,000 of this coming from commercial foreign exchange. They saw £53,336,000 in profit before tax, £23,852,000 of which came from

commercial foreign exchange.[16] This puts their commercial foreign exchange business (which includes third-party outsourcing) alone at nearly five times the size of Global Forex's business.

Competitor One's e-commerce solution for corporate customers is Foreign Payments[17], which was launched in April of 2004. They do not offer online currency trading directly to consumers through a product like Product 1. Foreign Payments is targeted at businesses, financial institutions and third-party payment processing market. Competitor One is particularly looking to build the third-party solution channel through partnerships with financial institutions.[18] If they are successful in this strategy, they could stand to gain substantial market share and firmly entrench their position as the international market leader. Preliminary reviews of this product suggest that at this time, it outperforms Global Forex's Product 2 in functionality, as it is slightly more developed. However, Global Forex expects that Product 2 will be a much superior product in six to ten months because of planned enhancements currently in development. (Granted, Competitor One could respond to Product 2 with further enhancements of their own). Competitor One is a very strong competitor for Global Forex, but the company's reputation for poor customer service provides a window for smaller competitors, who are already successfully "stealing" customers and employees away from Competitor One on an ongoing basis.

3.6.3 Competitor Two

Competitor Two is a smaller, privately held company with dealings in Canada, the United States and Europe. They focus primarily on the corporate foreign exchange market, with approximately 30,000 clients around the world, and process approximately $10 billion USD in currency transactions annually. The company's service offering include corporate foreign

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[16] Competitor One. *Competitor One Holdings Limited Annual Report & Accounts 2003*. (Toronto: Competitor 1 Holdings Limited), 31-39.

[17] Pseudonym to protect market position.

[18] Competitor One, "Competitor One Launched Online FX Payment Platform" *Competitor One corporate web site*, 2004.

exchange, an e-commerce solution, and financial analysis. Internet Payments[19] is the company's e-commerce solution.[20] This system is not thought to be a strong competitor to Global Forex's Product 2 or to Competitor One, as it has limited functionality that does not meet the needs of larger corporate customers. The company's customer service is strong, but Competitor Two is currently seeking a buyer and the future of the company is uncertain.

3.6.4 Competitor Three

Competitor Three is a privately-held company operating solely in Canada and the United States. Financial data on the company is not publicly available. The company's focus is on foreign exchange services to small and medium-sized enterprises, some of which is delivered through their online solution FX.[21] This product was not custom developed, and is not a strong competitor in the market – it was purchased "off-the-shelf" and Competitor Three does not have the ability to enhance FX themselves. For traditional foreign exchange services, Competitor Three is a strong competitor in Canada and the United States with a good reputation for customer service. However, the company is not a major international player.

3.6.5 Competitor Ranking

The strength of the different players varies geographically, as well as when measured according to the quality of the e-commerce solutions they provide. As little industry data is available to support an exact breakdown of market share, ranking competitors' performance in each area helps paint a global picture of leaders and followers.

3.6.5.1 Geographic Market Share

Tables 2, 3, 4 and 5 rank the competitors according to their approximated market position in each geographic market. Exact market share figures are not available as all

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[19] Pseudonym to protect market position.

[20] Competitor Two, "Competitor Two Corporate Information," *Competitor Two corporate web site*, 2004.

[21] Pseudonym to protect market position.

competitors (except Competitor One) are private companies. However, in the large US and UK markets it is known that Competitor One has substantially more market share (in terms of volumes traded) than other players – perhaps as much as all other competitors combined. Note that there are other competitors in the UK and Australian markets, but they do not have online solutions.

Table 2. Canadian Market Share

Company	**Rank**
Global Forex	1
Competitor Three	2
Competitor One	3

Table 3. United States Market Share

Company	**Rank**
Competitor One	1
Competitor Two	2
Global Forex	3

Table 4. United Kingdom Market Share

Company	**Rank**
Competitor One	1
Competitor Two	2
Global Forex	3

Table 5. Australia Market Share

Company	Rank
Competitor One	1
Global Forex	2

3.6.5.2 Quality of E-Commerce Solutions

Table 6 ranks the competitors according to a number of features associated with the quality of e-commerce solutions they provide and their ability to quickly deliver these products to customers. Rankings are shown for companies that have products competitive to Global Forex's Product 2 and Solution X. Competitor Three's solution is not included in this ranking as their e-commerce product is too far behind the other products in capabilities to be considered a competitor. In addition, no comparisons are given for Global Forex's Product 1 as it does not have any global competitors in the market.

3.6.6 Opportunities and Threats

It is clear from this analysis that the two most significant international competitors are Competitor One and Global Forex. Although there are other strong players competing at the local branch level, only these two have the capacity to compete globally in all major markets through e-commerce solutions. Global Forex is facing a significant threat in this arena as Competitor One is a much larger competitor and is ahead of Global Forex on nearly every count – they have already deployed a product globally, they can compete in multi-lingual markets around the world and they are fast to market with new enhancements. Global Forex is still struggling with a number of infrastructure issues related to fast growth (these are further explained in *Section 5, Internal Analysis*), particularly its ability to bring its e-commerce solutions to market quickly, and then aggressively market those solutions around the world. If it does not overcome these constraints, the company is in danger of being permanently left behind.

Table 6. Foreign Accounts Payables and Receivables

	Competitor One	**Global Forex**	**Competitor Two**
Current market share	1	3	2
Current product capabilities			
Multi-lingual	1	2	3
Forward contracts	1	3	2
Accounts payables	2	1	3*
Accounts receivables	1	2	3*
Product development			
Product enhancements in development	2	1	n/a*
Speed to market with enhancements and product[22]	1	2	n/a*
Customer service			
Ease of use	2	1	n/a*
Customer support	2	1	n/a*
Sales			
Ability to rapidly install/deploy products/enhancements globally	1	2	3

**Competitor Two is currently for sale and there are not any planned product enhancements at this time.*

Global Forex still has a number of opportunities it can exploit. First, Competitor One is known for poor customer service, and it is likely that this characteristic is being perpetuated through its e-commerce solution. Global Forex should continue to capitalize on this weakness in its global marketing and sales strategy and emphasize Global Forex's strengths. Second, as Competitor One has already achieved first mover advantage, Global Forex could seek to exploit

[22] It should be noted that although Competitor One has beat Competitor Two to market, this was after purchasing a competitor with a solution they enhanced.

this and gain second mover advantage by learning from Competitor One's mistakes, and building future Product 2 and Solution X enhancements around weaknesses in Competitor One's product. As Competitor One is a public company, Global Forex can also watch the organization's performance in new markets it is entering (such as Asia), and capitalize on any setbacks or mistakes the company makes in these markets. Global Forex can also use the increases in Competitor One's costs to support third-party solutions as a benchmark for its own pricing of Solution X. Third, the global foreign exchange market is very large. With only two competitors challenging the banks for corporate e-commerce solution business, there is still a great deal of room to share the market. Global Forex could look to segment its target markets so that it is not competing head to head with Competitor One except in markets where it already has a great deal of geographic strength, such as North America and Australia or in markets where there is substantial room for growth.

3.7 Summary – Attractiveness of the Industry

Although there is a threat of entry to the foreign exchange industry from the banks and other service providers, this remains an attractive industry to incumbent foreign exchange dealers. The size of the industry, room for growth, and relatively few global competitors all point towards strong potential in the short- to mid-term, particularly for companies with effective e-commerce strategies and solutions. There is a market gap where banks decline to serve customer demand, relatively few competitors seeking to fill that gap at this time, and a regulatory environment that is increasingly protecting established incumbents.

Within this context, it appears that Global Forex's strategy of building much of its global expansion around its e-commerce products for the corporate market is sound. Whether or not the company has the ability to catch up to their main competitor Competitor One, rollout their software quickly and cost-effectively, build an efficient internal infrastructure, and develop and implement the market and sales strategies to dominate the market remains to be seen.

The following Value Chain Analysis gives an overview of Global Forex's operations, highlighting where the company creates value. It provides a foundation for identifying key success factors that company will need to meet to meet and exceed in order to successfully achieve its expansion strategy and a window into internal strengths and weaknesses that will be further explored in *Section 6, Internal Analysis*.

4 VALUE CHAIN ANALYSIS[23]

This section briefly describes the Global Forex's value chain, highlighting where and how Global Forex creates value for customers and competitive advantage at each stage. At this time, most of Global Forex's competitive advantage is created through operations, outbound logistics, sales and service – these are all core competencies. This is visually highlighted in Figure 9 and explained in detail in the subsequent sub-sections.

Note that foreign exchange does not have any of the complex inbound logistics that might characterize other industries, even the banking and securities industries, as foreign exchange dealers do not collect deposits or sell investment products. As such, inbound logistics in this analysis are defined as those activities that drive daily transactions to the foreign exchange dealer from existing clients, who may or may not trade on a given day depending on market conditions. This is distinguished from sales, which involves seeking out new clients and setting up accounts. The value chain analysis applies to all foreign exchange products and services at Global Forex, with a particular focus on e-commerce solutions.

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[23] Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*. (New York: The Free Press, 1985), Chapter 2.

Figure 9 Global Forex Value Chain

Firm Infrastructure	Treasury, Accounting, Compliance/Legal, Management Consulting				
HR Management	Payroll and benefits, education and training, temporary help, employment agencies				
Technology Development	Credit checking, transaction security, custom software, customer security, transaction processing, IT risk management				
Procurement	Purchase rate feeds, source currency suppliers				
Primary Activities	Incoming Transactions Screen transactions and clients Efficiently manage incoming transactions from multiple sources	Transaction Processing Efficiently manage transaction processing Manage cash flow Protect customer assets Manage risk Maintain transaction records	Outgoing Settlement Efficiently release customer and partner payments Maintain records	Marketing Promo-tions Advertis-ing Partner develop-ment New market research	Sales and Service Branch, phone, Internet Partners Customer relation-ship manage-ment
	Inbound Logistics	Operations	Outbound Logistics	Marketing	Sales and Service

MARGIN

4.1.1 Firm Infrastructure

Firm infrastructure at Global Forex as depicted in the preceding figure includes firm activities that cross all stages of the value chain as well as human resources management and technology development. Global Forex has grown from a small operation to a multi-national company in just ten years, and in the last several years the company has worked diligently to create an internal infrastructure that supports current operations and future expansion plans. This infrastructure building is still very much in development at this time. This section gives a brief overview of the infrastructure that is relevant to the company's competitive advantage, highlighting those departments that are most involved with creating customer value and supporting the company's expansion.

4.1.1.1 Treasury

One of the main purposes of Global Forex's treasury department is to manage the company's foreign currency risk – both in terms of current risk related to the company's day-to-day market position, and future risk due to global currency market trends. (How Global Forex efficiently manages its day-to-day risk is described under *Primary Activities).* Future risk management across the company is critical to Global Forex remaining a successful business. Analysis of where the markets are going helps Global Forex to take advantageous positions in long-term currency markets, allowing the company to offer better rates to its customers than its competitors. When looking at future market trends, the company may study social, political and economic trends, as they serve as catalysts for activity in the foreign exchange market, increasing the volumes of currency moving across borders. For example, political events such as elections and wars increase activity in the currency markets, which in turn increases activity for foreign exchange dealers as customers look to book forward contracts, bids and transfer funds to move their currency out of a certain market. These types of trends are a direct benefit to Global Forex,

and can be capitalized on by proactive planning. Global Forex also watches fluctuating exchange and interest rates, which (combined with social and economic trends) can cause speculation against a particular currency, which in turn causes that currency's rate to fluctuate along with the rates of any other currencies pegged to it. Rate fluctuation often increases the spread available to foreign exchange dealers, thereby improving the rates the company can offer its customers and/or increasing revenue.

Global Forex's ability to manage its risk, operations, growth and market positioning within these economic trends determines its competitive advantage. In addition, the company's centralization of trading (through a single Treasury Department) and ability to offer 24-hour service to customers around the world creates a distinct advantage over competitors due to the cost efficiencies and good customer service this structure provides.

4.1.1.2 Compliance and Internal Audit

The Compliance and Internal Audit department is responsible for ensuring the company meets all regulatory requirements in all jurisdictions in which Global Forex does business. This includes research into regulatory barriers in new markets, setting and monitoring policy, and providing staff training around the world. In addition, the department monitors for internal and external fraud and conducts compliance and financial audits of Global Forex's branch network. The Compliance department is Global Forex's public face to various reporting bodies around the world, and as such the department also plays a lobbying role on behalf of the company.

In recent years, the foreign exchange industry has come under intense scrutiny by law enforcement and regulatory bodies around the world as the industry is considered to be at high risk for money laundering, identity fraud and internal fraud. In addition, privacy and corporate governance legislation is increasing the amount of transparency and security that must be built into operations. New requirements have been put in place in most jurisdictions, and companies that fail to comply with these regulations can be fined or given cease and desist orders. In some

jurisdictions, these regulations apply to not just the foreign exchange dealer but also to their clients (for example, international law and accounting firms). As such, Global Forex is gaining competitive advantage by being an early leader in adopting standards above and beyond what legislation mandates as larger clients are demanding this security. By moving forward with adopting security protocols throughout their operations now, the company could sustain an early-mover advantage for many years to come because the infrastructure costs involved are creating a barrier to entry for new players and forcing smaller players from the market. In addition, Global Forex has built collaborative, mutually beneficial relationships with law enforcement that make the company less likely to be subject to investigation, which could be very damaging to the firm's reputation. The more sophisticated corporate customers Global Forex is seeking around the world appreciate the protection these efforts afford their business, which they may not have with other foreign exchange dealers.

4.1.1.3 Human Resources

The Human Resources department is new to Global Forex. This department will provide support for human resources planning, hiring policy, internal policy development and training. Global Forex is at a critical stage in its growth, as it is currently making the leap from a medium-sized business to becoming a large, international player. The human resources department will help Global Forex effectively make this jump and ensure the company attracts and retains the type of talent it needs to achieve its goals. Having the best people will help every department within the company create competitive advantage and value in their areas.

4.1.1.4 Information Technology

Global Forex's Information Technology (IT) department supports nearly all aspects of business at Global Forex. The department is currently maintaining several legacy products as well as developing new solutions for both internal and customer functions. The department's main task is to replace the legacy Treasury Banking System and Trading Program with a new

application that will more efficiently serve the company and can support new customer applications (the first of which was Product 2, the second will be Solution X). IT has been instrumental in implementing more formalized processes at Global Forex, which have supported the growth of the company's capacity to date. The department uses proven software development methodologies that begin with eliciting business requirements and end with thorough quality assurance and user acceptance testing, which has substantially improved the quality of solutions the company can deliver to its customers. However, Information Technology is also significantly behind where it would like to be with rollout out the new systems, as the company is being held back from taking advantage of opportunities until the new system is complete – particularly with Solution X and with the efficiencies that could be gained by immediately replacing the old banking system. The organization is looking at ways to efficiently expand its resources such that it can rapidly integrate teams to speed up the development and release of its outstanding priorities.

4.1.2 Primary Activities

4.1.2.1 Inbound Logistics – Incoming Transactions

The only real "inbound logistics" applicable to Global Forex at the firm level are daily incoming transactions. Currency transactions arrive at the company through in-person, phone, or Internet channels. In addition, Global Forex receives transactions through industry partners who sell currency but do no processing, transaction analysis or risk management themselves. Note that the process of receiving transactions is distinguished from selling, in that all transactions arrive from existing clients. Volumes change each day depending on market conditions. (Selling refers to closing new clients who will subsequently send varying amounts and volumes of daily transactions).

Prior to allowing transactions to move into production, or the processing system, Global Forex performs the following two activities, each of which add to the value provided to

customers by protecting the company's business, and therefore the business of its customers. Global Forex is taking substantial steps towards building a seamless international security and credit network, which sets the company apart from other foreign exchange dealers with less rigorous standards.

Client Screening

Global Forex is currently a market leader for adopting international securities, banking, fraud, money laundering, terrorist financing and privacy legislation into everyday business practices. The company's policy is to meet or exceed all legislative and regulatory requirements in each jurisdiction in which they do business. This has come at a substantial cost, but is providing the company with a distinct competitive advantage, particularly among Fortune 500 multinational-corporations, law firms, and smaller financial institutions looking for a credible and reliable solution provider. The company's processes for client screening are new and still in development, but thus far are proving to be an effective way to manage risk and exposure.

When businesses and individuals apply for an account, Global Forex first screens them against internal policies and procedures set by the Compliance department (this is subsequent to the sales team winning the conditional account through the sales process). Applications are filled out at the branch level once the sales person has determined that this would be a profitable client to pursue – this applies to all clients except for Product 1 clients, who sign up online. At this time, all Product 2 business is one through traditional branch sales. If a client does not meet the initial screening criteria laid out in the policy, their application is referred to the Compliance department for further due diligence. Prospects not meeting security requirements are denied an account. For example, if a customer performs business in a "banned country" according to international anti-terrorism task forces, they are rejected. Once a prospect has been approved according to security criteria and becomes a client, they may need to pass certain credit

requirements if the branch intends to issue credit (that is, releasing funds before funds have been received by the client's bank). Global Forex internal policy allows branches to grant credit up to a certain limit, which varies from branch to branch and across industries. Credit applications beyond that limit need to be approved by head office. These policies serve to protect Global Forex's business and customer assets. By adopting and enforcing these policies (along with others), Global Forex is well positioned to be accepted as a "bank" by international regulatory bodies, which will allow (and already has allowed) the company to enter new markets more easily (for example, Australia and some American states) and win larger, more profitable clients. This strategy has helped Global Forex strongly position itself as the number two international foreign exchange dealer after Competitor One, leaving other competitors far behind.

Daily Market Rates and Trading Limits

Global Forex has two primary sides to its operations that must balance each day – the trades or payments the company makes with their customers, and the trades it makes in the market (meaning with major financial institutions) to offset customer activities. To facilitate this and actually process the payments, the company has partnerships and preferential rates with major international banks and brokerages to supply currency, process transactions, and send payments and transfers around the world. The large banks do not view this as against their competitive interests as they are not interested in processing transactions in multiple currencies – Global Forex is in essence the middle man between many different financial institutions.

The Treasury Department supports all transaction-processing activities at Global Forex. Daily risk management is one of the most critical functions of the Treasury department, as it protects the company and supports a wide range of daily activities. Each day, Treasury monitors Global Forex's cash flow and its positions in various currency markets, making adjustments if necessary. They then set daily rate policy for the company's branch network based on the current risk exposure and market positions. Those rates are based on each day's market rates,

competitor's rates, and Global Forex's desired spread. Rates must be set before incoming transactions are accepted from partners, booked over the Internet, or booked by a customer service representative. Rates are fed to all branches and web sites through a real-time rate feed driven by the company's banking system, which allows Treasury to instantly update rates if there is a major market or competitor movement.

Treasury's skill in this area is critical to Global Forex's ability to offer its clients rates that are better than the competition. Value is further created through Global Forex's flexible rate policy at the branch level – branches can choose to offer more competitive rates to particular customers if there is a local "rate war" or if doing so would lock in a sale. The company has also created a competitive advantage with this department in that it has centralized the function in one location, whereas other foreign exchange dealers often duplicate treasury departments around the world, which greatly increases costs.

Global Forex is currently losing competitive advantage in that this process is not as automated as it could be. Just as branches can offer credit to a certain limit, they are free to book their own deals up to a varying ceiling, depending on the branch. Larger deals need to be booked through head office, which requires a phone call from the branch to the treasury department. The branch trader then needs to wait on hold for about five minutes while treasury calls partner banks in search of a good wholesale rate for Global Forex (these are for very large currency deals – for example, $1 million). This brief time delay can cause clients to go elsewhere when a currency is fluctuating, or cause the company to take a loss on the transaction. Global Forex is planning to revamp this system so that Treasury can automatically get updated rates from the banks on large deals instead of placing a phone call. This will be facilitated through the new banking system.

4.1.3 Operations

Global Forex's production or manufacturing operation is really just transaction processing and ongoing risk management. From the customer's point of view, these transactions can be either direct trades or foreign currency payments. However, from an operations point of view, all transactions are comprised of incoming payments from the client and outgoing payments to a particular beneficiary. If the transaction is a simple trade, that beneficiary could be the original customer. For a complex payment deal, there may be multiple outgoing payments (or settlements) around the world as part of one transaction for one customer.

Once a customer passes screening and a deal is booked by a trader, the transaction automatically transfers from the branch to Treasury. The department then goes through a complex process to ensure:

- The client funds arrive in the correct currency and are credited to Global Forex's accounts, either by cheque, EFT or wire.
- The outgoing payments are sent to the correct payment beneficiaries in the correct currencies and payment format (EFT, cheque or wire). Many of these payments are transacted through partner financial institutions around the world. (Note that this technically falls into the outbound logistics portion of the value chain, but is explained here for clarity along with the following point).
- Partner settlements (if applicable) are calculated and collated. Partner settlements are usually released periodically depending on their terms of agreement – for example, once a month. These are based on a percentage of the spread of each transaction processed by Global Forex.

The actual currency exchanges as part of each transaction are then offset in the market, usually in batches. Treasury trades currency in and out of Global Forex's accounts with partner international financial institutions that provide the company with preferential rates. The

difference between the preferential rate and market rate given to the customer is the spread, where Global Forex makes its profit. Global Forex's competitive advantage in this area is the strong relationship it has with its key banking partners, which is supported by the company's commitment to compliance and security. The company's high standards and the volumes of business make Global Forex an attractive partner for banks, who provide the company with excellent rates that are better than those available to smaller competitors. The company's disadvantage is that it is fairly dependent on a few key banking relationships.

4.1.3.1 Risk Management and Transaction Monitoring

In addition to screening customers at the inbound logistics stage of the value chain, Global Forex also monitors transactions on an ongoing basis for unusual activity and to ensure the company meets regulatory reporting requirements. The company is still building and integrating several information technology systems to facilitate this activity. Currently, monitoring is done both electronically and manually. Branch managers are responsible for checking daily activity by their clients and noting anything unusual. In addition, the legacy banking system collates the amount transacted by each client, each day. Amounts over a certain amount are reportable to government bodies in the relevant jurisdictions. The actual reporting is done both automatically and manually, although the company intends to fully automate this process as part of the new banking system. Global Forex is planning to implement a system whereby all transactions will be automatically monitored using artificial intelligence technology to screen patterns that could indicate internal or external fraud, money laundering or other criminal activity (once the new banking system is fully deployed). This is commonly done in major banks, but very few foreign exchange dealers have the scale to do this. Adopting this level of security is a competitive advantage for Global Forex, as it protects the company's business and customer's assets. Other competitors who do not make this investment are vulnerable to having their finances and reputations damaged, as well as being subject to investigation and fines

by regulators. Corporate customers appreciate Global Forex's security efforts as it gives them a comfort level that their own reputations and funds will be protected.

4.1.4 Outbound Logistics

At Global Forex, outbound logistics are really just the outgoing settlement and reporting process described in the previous section. This involves releasing payments to customers, their payment beneficiaries and partners through a particular bank. The bank through which the funds are released depends on where the funds are going – it may be through Global Forex's accounts in Europe, Australia, the United States, or Canada. Global Forex's competitive advantage in this area lies in its international banking relationships, which allows the company to quickly transfer funds around the globe.

4.1.5 Marketing

As the foreign exchange industry has traditionally competed on price, marketing is not highly developed either at the industry or at the firm level – companies have not traditionally invested a great deal of money or effort into uniquely positioning themselves in the market. Positioning has usually been based on offering good rates in a particular geographic, industry or market segment. Several forces are changing this situation – consolidation in the industry due to regulation, increasing technological sophistication of firms and customers, and the growing need to have an established global presence in order to be a successful. The market is still quite diffuse with little intense head-to-head competition between foreign exchange dealers, but firms are starting to make a stronger effort at differentiating themselves, often as solution providers that help companies do business in foreign currency around the world instead of just as "currency exchanges." This is happening in tandem with the widening deployment of e-commerce solutions

that automate currency trading, transaction processing and foreign currency payables and receivables within customers' operations.

Global Forex's strategy is to position itself this way, but its marketing efforts to date have not yet caught up with this strategy, mostly due to the speed of the company's growth and its struggle to keep up with the pace of change. In addition, the company is attempting to bring two cultures and markets that require very different marketing approaches together – the company's large branch network, which primarily sells to SMEs, and the international branches, which primarily sell to larger, corporate customers. Most marketing efforts are reflective of the SME branch market environment, which is not what the global branch, Product 2 or Solution X markets require. Marketing activities are typically reactive and focus on local branch promotions, with some coordinated support from head office for marketing collateral and events. The company has not yet been able to launch any global, strategic marketing initiatives that support expansion goals into different markets, but it is working towards this goal. Marketing is not a core competency in Global Forex at this time and as a result the company is not adding the value it could or should through these activities – opening new channels, creating strategic campaigns for the new e-commerce products in target industries, or providing market research on new opportunities. That said, the company recognises this gap and is taking steps to better align its marketing activities with its global business strategy.

4.1.6 Sales and Service

4.1.6.1 Sales

Global Forex's global sales strategy is to segment markets by geography, industry and sub-industry. Industry segments are selected based on local factors, research and/or inside knowledge that indicates a certain industry needs to process foreign currency transactions. There is not a great deal of formal market research to support these decisions at this time, rather, they

are based on the industry knowledge of senior sales staff. Contacts are made through personal contacts, trade shows, cold calling and other mechanisms (and through hiring sales staff away from competitors). For Global Forex's e-commerce solutions, the target contact at a prospect company is often the Chief Financial Officer or other executive that would stand to benefit from the efficiencies and competitive rates offered by Global Forex.

For the corporate sales channels around the world, Global Forex has three main competitive advantages – the calibre of people the company has employed, the quality of service the company provides and Product 2. Global Forex has strategically hired sales people either away from competitors or from industries the company is seeking to target. This has allowed the company to strategically target certain markets for expansion, and have a team that can be quickly up and running with existing contacts. Global Forex's strong service reputation continues to help the company win new business and lure clients away from bank and foreign exchange competitors. Finally, Product 2 has given the sales team a competitive product with which they can emphasize value adds for prospects.

There are also some recognised weaknesses with the current sales structure at Global Forex, particularly with regards to the company's e-commerce products. First, selling foreign exchange technology solutions is new to many of Global Forex's older, SME branches. Product 2 and Solution X sales require a different skill set than traditional foreign exchange instrument sales – the sales person must be technically literate, and understand how these solutions can both facilitate foreign exchange and add value through increased efficiencies. This will be even more critical for the proposed Solution X, which will require the sales person to be first a skilled consultant, capable of researching a company's needs and showing prospects how the solution can be integrated with their daily operations. They will also need a keen understanding what impacts commitments made to customers will have both on the customer's systems and on Global Forex's IT and infrastructure costs. Although some Global Forex branches are highly

skilled at this type of sales environment, others will need a fair amount of education before they can do this effectively.

A second weakness in the current sales structure is that Global Forex does not have good customer data at a global level at this time. Individual branches usually have an idea of how their customer base is spread out across industries and which customers are most profitable, but this data is not aggregated across the company. This hinders sales planning and also puts the company at risk to exposing itself too widely in a particular industry or geographic market.

4.1.6.2 Service

Service in the foreign exchange industry is really just customer relationship management with existing clients. Firms that provide good service have an advantage over firms that don't as their reputation is enhanced. Good service is created through:

- In-depth knowledge of local markets and industries;
- Good market segmentation and target marketing;
- Anticipation of changes in customer demands;
- Ability to customize foreign exchange solutions to meet customer needs;
- Provision of robust, reliable e-commerce solutions that improve efficiencies and reduce costs for customers;
- Ability to respond quickly to customer concerns and feedback;
- Effective use of customer relationship management systems to gather and use customer information.

Global Forex's customer relationship management is an entrenched competitive advantage as the company is known for its outstanding customer service and sales staff, who frequently take business away from banks and other foreign exchange dealers because of their poor service. Company-wide, the company is still maturing and seeking to implement coordinated customer relationship management solutions (CRM) that will provide better business

intelligence on customer activities and trends, exposure in specific customer markets, and profitability by customer and segment.

4.2 Summary

This analysis shows that Global Forex is creating value for customers with many of activities, but is missing out on opportunities to create value in some areas. Section 6, *Internal Analysis*, will examine how the company can address these gaps in order to counter threats, take advantage of opportunities, and successfully achieve its goal of becoming the global brand name in corporate foreign exchange.

5 OPPORTUNITIES, THREATS AND KEY SUCCESS FACTORS

Section 2, *Industry Analysis*, clearly shows that although Global Forex's strategy to make e-commerce its launching point for expansion into global corporate markets is sound, there are many opportunities and threats facing foreign exchange competitors in these markets. To successfully avoid threats and capitalize on opportunities, Global Forex will need to develop the organizational capabilities to meet and exceed a number of key success factors (KSFs). This section summarizes those opportunities, threats and KSFs. These KSFs are then measured against Global Forex's internal capabilities in *Section 6, Internal Analysis*, and recommendations are given to address identified gaps (along with gaps mentioned in Section 4, *Value Chain Analysis*).

5.1 Opportunities and Threats

5.1.1 Threat – Market Entry by Financial Institutions, Payment Processing and Credit Companies

The first major threat to Global Forex is that large, international banks may decide to move into the foreign exchange market if it becomes more attractive from their perspective – eroding Global Forex's current market share and removing its ability to expand. Financial institutions could be motivated by the profits foreign exchange firms are earning (particularly from higher margin corporate customers) and entry could be facilitated through partnerships with technology service providers. Similarly, consumer payment services may enter the foreign exchange market though the same avenues as financial institutions. Potential competitors include Visa, American Express and eBay (Paypal), particularly if they partner with a technology solution.

5.1.1.1 Opportunity – Partnership Development

There is a strong opportunity directly associated with the threat of entry by financial institutions and payment/credit companies. Global Forex should seek to build partnerships with those organizations interested in foreign exchange but lacking the infrastructure to process foreign currency transactions.[24] Numerous financial institutions around the world operate primarily in their own geographic markets due to regulatory and size constraints, although their customers have requirements for international currency payments. By partnering with these banks to provide foreign exchange services to their customers, Global Forex would effectively pre-empt any partnerships with technology-based service providers. Global Forex can offer both a global financial network and technology solution, whereas technology service providers can only offer a transaction processing solutions that plug into the banks' existing global infrastructure, rather than expanding on this infrastructure. This is a distinct competitive advantage that can be exploited to expand market share.

5.1.1.2 Opportunity – Increase Switching Costs for Corporate Customers

One of the best ways to keep corporate customers is to increase their switching costs, and e-commerce solutions are an ideal vehicle through which this can be accomplished. Enhanced functionality that adds value for customers and increases the amount of data they have stored with or through Global Forex's services will make customers less likely to leave for a competitor because of the costs they would incur. Solution X will be particularly important to this opportunity as it will allow Global Forex to offer a back-office solution (end-to-end payment processing) rather than just a front-office solution (Product 2).

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[24] Note that there are two "classes" of banks that do business with Global Forex. The first, mid-sized banks that primarily operate within a geographic region, are potential customers. The second, large, international banks, are also potential customers, but at the same time they are potential partners for currency supply and payment distribution.

5.1.2 Threat – Dependence on Partner Banks and Brokerages

Global Forex is in danger of being too dependent on a few key banking (or brokerage) relationships for currency supply, rates, and payment distribution to customer. The positive side of concentrating business with a few major partners is that they give preferential rates to Global Forex because of the volumes the company supplies. However, the negative side is that it would have a severe (albeit temporary) impact on Global Forex's business if one of these institutions were to discontinue the relationship.

5.1.2.1 Opportunity – Broaden Global Relationships

As with the threat of entry from banks and credit companies, there is an opportunity directly associated with the threat posed by over-dependence on a few key banks. As Global Forex proceeds with its global expansion, it could seek to develop new relationships with large banks and brokerages in select regions, particularly Europe and Austral-Asia. This will reduce the dependence on the large American banks and brokerages that currently supply currency or help distribute customer payments.

5.1.3 Threat – Dependence on Customer Bases, Markets or Partners

With Product 1, Global Forex is quite dependent on its relationship with a single industry partner that provides most of the product's transaction volumes. This creates a power imbalance in the business relationship and leaves Global Forex vulnerable to the collapse of this business line if the partner were to go elsewhere.

On a larger scale, Global Forex does not have good business intelligence regarding its customer base at a company-wide level at this time. This hinders good sales planning, increases credit risk and creates a danger of being overly reliant on certain industry sectors for daily volumes and profits.

5.1.3.1 Opportunity – Broaden Partner Networks for Product 1

To counter the threat of overly relying on one partner for Product 1, Global Forex has the opportunity to greatly increase the product's partner network. Product 1 does not have any significant competitors (for consumer Internet trading) and can offer a unique business line to large online portals such as MSN, Yahoo and even eBay. To facilitate this expansion, however, the company must complete Product 1's redevelopment quickly, gain a better understanding of the true costs and profits of the product's transactions (which can be used for accurate sales and cost projections if the customer base grows), and carefully assess the regulatory risk Product 1 exposes the company to around the world.

5.1.3.2 Opportunity – Strategically Segment Customers with Improved Knowledge of Existing Customer Base

Customer relationship management solutions, better knowledge of true transaction costs, and better tracking of customer information will all improve the company's business intelligence. Global Forex is already working towards this, and will be able to use improved data to better segment its markets and improve its sales planning. This will help the company focus in on the most lucrative customer segments around the world, and phase out less profitable segments or products. The result should be a more profitable company that can beat its competitors strategically.

5.1.4 Threat – Currency Integration

Currency integration is less of a threat than other areas, but none the less is worth consideration. For example, if the British Pound and Euro were to integrate, Global Forex's business would suffer considerably and a huge amount of the company's transaction volumes are based on currency payments between these two companies.

5.1.4.1 Opportunity – Broaden Global Presence

To hedge against potential business losses due to currency integration, Global Forex should first continue on its path of global expansion. Being a more geographically diverse company with strong operations in Europe and Austral-Asia will protect the organization against any potential drop in its North American business. Second, the company could consider expanding its product offerings beyond foreign currency payments (for example, to credit and insurance) should the threat of currency integration become more imminent in the future.

5.1.5 Threat – Permanently Losing Market Share

It is clear from this analysis that the two most significant international competitors offering foreign exchange e-commerce solutions are Competitor One and Global Forex. Although there are other strong players competing at the local branch level, only these two have the capacity to compete globally in all major markets through e-commerce solutions. Global Forex is facing a significant threat in this arena as Competitor One is a much larger competitor and is ahead of Global Forex on nearly every count – they have already deployed a product globally, they can compete in multi-lingual markets around the world and they are fast to market with new enhancements. Global Forex is still struggling with a number of infrastructure issues related to fast growth, particularly its ability to quickly complete development and rollout of its e-commerce solutions. If it does not overcome these constraints, the company is in danger of being permanently left behind and losing market share to Competitor One.

5.1.5.1 Opportunity – Exploit Rival's Poor Customer Service

Although Global Forex is behind Competitor One, it can still exploit the company's weaknesses as it works to catch up. First, Competitor One is known for poor customer service, and it is likely that this characteristic is being perpetuated through its e-commerce solution.

Global Forex should capitalize on this weakness in its global marketing and sales strategy and emphasize Global Forex's strengths against the competitor's weaknesses.

5.1.5.2 Opportunity – Exploit Second-mover Advantage

As Competitor One has already achieved first mover advantage, Global Forex should seek to exploit this and gain second mover advantage by learning from Competitor One's mistakes, and building future Product 2 and Solution X enhancements around weaknesses in Competitor One's product. As Competitor One is a public company, Global Forex can also watch the organization's performance in new markets it is entering (such as Asia), and capitalize on any setbacks or mistakes the company makes in these markets. Global Forex can also use the increases in Competitor One's costs to support third-party solutions as a benchmark for its own pricing (or costing) of Product 2 and Solution X.

5.1.5.3 Opportunity – Exploit Size of Global Market

The global foreign exchange market is very large. With only two competitors seriously challenging the banks for corporate e-commerce solution business, there is still a great deal of room to share the market. Global Forex could look to segment its target markets so that it is not competing head to head with Competitor One except in markets where it already has a great deal of geographic and brand strength, such as North America and Australia, or in markets where there is substantial room for growth.

5.1.6 Summary

To successfully exploit any of these opportunities, Global Forex has several hurdles to overcome. The company must quickly finish development and deployment of Product 2's final enhancements and Solution X, employ sophisticated sales staff capable of selling technology-based financial services solutions, and ramp up their back-end treasury systems and capacity such that the company can efficiently handle increased volumes.

5.2 Key Success Factors

Key success factors are organizational capabilities that will allow a competitor to remain competitive and succeed in the foreign exchange market as it has been described in this analysis, with a focus on e-commerce solutions.

1. Effective Cost Management

To manage growth, support an international infrastructure and build leading e-commerce solutions, foreign exchange companies must be able to effectively track and manage their internal costs. Although e-commerce solutions are differentiated at this time and will likely remain so in the near future, these solutions may become more homogenous over time as competition intensifies between a limited number of players, particularly if there are large new entrants. Those with the lowest cost structure will be best able to pass savings on to customers, enhance their e-commerce products and maintain (or grow) their market share and take advantage of expansion opportunities.

Keeping costs low requires not just an understanding of the costs and revenues associated with business today, but also with business in the future. This is particularly true of information technology systems development, where costs can easily spiral out of control at any stage of a product's lifecycle – development, deployment or maintenance. As most IT products offered in foreign exchange are based on an application service provider (ASP) model where the foreign exchange company absorbs all costs (software, hardware, maintenance, security, maintenance, technical support, etc.) associated with product delivery, this is critical. ASP solutions can have very high cost increases associated with increased volumes – the more successful the sales team is, the more the costs of delivering and supporting the product. Companies that can carefully plan for and limit these types of incremental cost increases with their growth will be at an advantage over their competitors.

Similarly, successful companies must be able to clearly understand the true profit different industry segments and business units contribute to their operations. Some industry segments will produce more profitable customer streams than others due to volumes, more interest in value-added services and less sensitivity to pricing. Companies that understand and exploit this will be able to outperform their competitors over the long term.

2. Effective Global Sales and Marketing Strategy

First, to be a truly effective player in global foreign exchange, competitors must implement effective sales and marketing strategies. This involves building a global brand that is based on strategic directions for gaining and maintaining market share – and in this case, promoting foreign exchange e-commerce solutions. Companies with the best understanding and implementation of marketing strategy (including partnership development) may be able to outperform competitors with greater market share or competitive advantage by making the right strategic choices and implementing them effectively through activities and communications that reflect the company's strategic direction and target market needs. For example, leveraging just one co-branding partnership with a major accounting package brand name for Solution X could greatly increase the product's market awareness.

A second component to good sales and market strategy is being able to utilize industry experience and market research to predict industry changes, market trends and opportunities. Competitors that can adapt quickly to and/or exploit new developments – such as new entrants or regulatory requirements – stand to perform better than those that fail to predict industry changes.

Finally, strong competitors must employ well-trained sales forces that are the best fit for targeted industry and geographic segments so the sales strategy can be successfully implemented. This is particularly important in the case of complex technology products such as Solution X,

which required a more sophisticated approach to selling than basic foreign exchange products and services.

3. Quick Development and Deployment of IT Solutions

To stay ahead of the competition, companies must be able to quickly develop and deploy information technology products that effectively meet customer needs, create new demand and efficiently support internal company infrastructure. Companies that fail to quickly deliver will find themselves either falling behind or facing spiralling costs. Clearly, customers in the foreign exchange market are demanding more than just good rates – they want complete solutions that address multiple business needs. Companies that are best able to produce a winning combination of customized product offerings for different customer needs, outstanding customer service and robust technology systems will come out ahead – but if the technology systems can't support the expanding business, the firm may fail.

4. Diversification of Business

A well-diversified customer base (geographically and by industry) and partner network (including banking partners) is one of the best protections against changing competitive and industry environments for foreign exchange companies. Competitors that have this in place could withstand regulatory or economic changes that dramatically impact business in a certain market. Competitors that have built strong global infrastructures around this customer base will also be better positioned to take advantage opportunities and grow. Organizations that base their segmentation and strategic planning on strong market research and industry knowledge will be best positioned to create the most varied and profitable customer base.

5. Responsive Customer Service

To protect and enhance existing customer bases, competitors in foreign exchange must be able to provide outstanding customer service that is in tune with differing industry needs. Good segmentation, marketing and products are not enough – market share must be protected by creating loyalty through outstanding service. If current customers are sacrificed in the pursuit of new business (for example, by taxing internal capacity), the company may lose market share in some areas as fast as it gains market share in other areas. This is precisely why Global Forex is successful in taking business away from its larger and stronger competitor Competitor One. Customers must also be confident that they are dealing with a secure and reputable company that will protect their assets and business reputation.

6. Leverage Security and Compliance for Competitive Advantage

Foreign exchange dealers are being forced to adapt to numerous international regulations intended to prevent the flow of proceeds of crime across borders. Some of these regulations also apply to the customers of foreign exchange companies. Those competitors that can quickly implement and exceed these standards have a competitive advantage over those who do not, as they can offer customers the assurance that:

- Their own business reputations will not be harmed by non-compliant activities by the foreign exchange dealer;
- Their funds are safe and secure;
- The foreign exchange dealer can help them meet regulations pertaining to their own industries.

To successfully leverage this KSF, competitors must effectively market their strength in this area.

5.2.1 Key Success Factor Ranking

The following table briefly outlines each KSF for industry competitors and rates Global Forex's performance against that KSF on a scale of one to ten, with ten being the top ranking. Rankings are based on internal knowledge of Global Forex's performance against competitors in the company's current state, and do not take into account future changes and developments the company is working towards but has not yet achieved. A deeper examination of Global Forex's strengths and weakness, along with recommendations for filling any gaps, follows in the *Internal Analysis*.

Table 7. Key Success Factors and Global Forex's Performance

Key Success Factor	**Ranking 1-10**
1. Effective cost management	6
2. Effective global sales and marketing strategy – sales component	7
Effective global sales and marketing strategy – marketing component	5
3. Quick development and deployment of IT solutions	6
4. Diversification of business	6
5. Responsive customer service	9
6. Leverage security and compliance	8

6 INTERNAL ANALYSIS

This section examines Global Forex's internal capabilities using Fry and Killing's Diamond-E Framework.[25] Management preferences are first analysed in the context of the stated strategic direction, the management team's capabilities and culture. From there, the company's strategy is compared to current financial, human and operational resources and gaps are highlighted. This leads to a discussion of organizational structure and culture. The outcome of this, in relation to the Industry Analysis and Value Chain Analysis, provides the basis for making recommendations in *Section 7* as to how Global Forex can take advantage of identified opportunities, deal with industry threats, and develop all of the necessary key success factors.

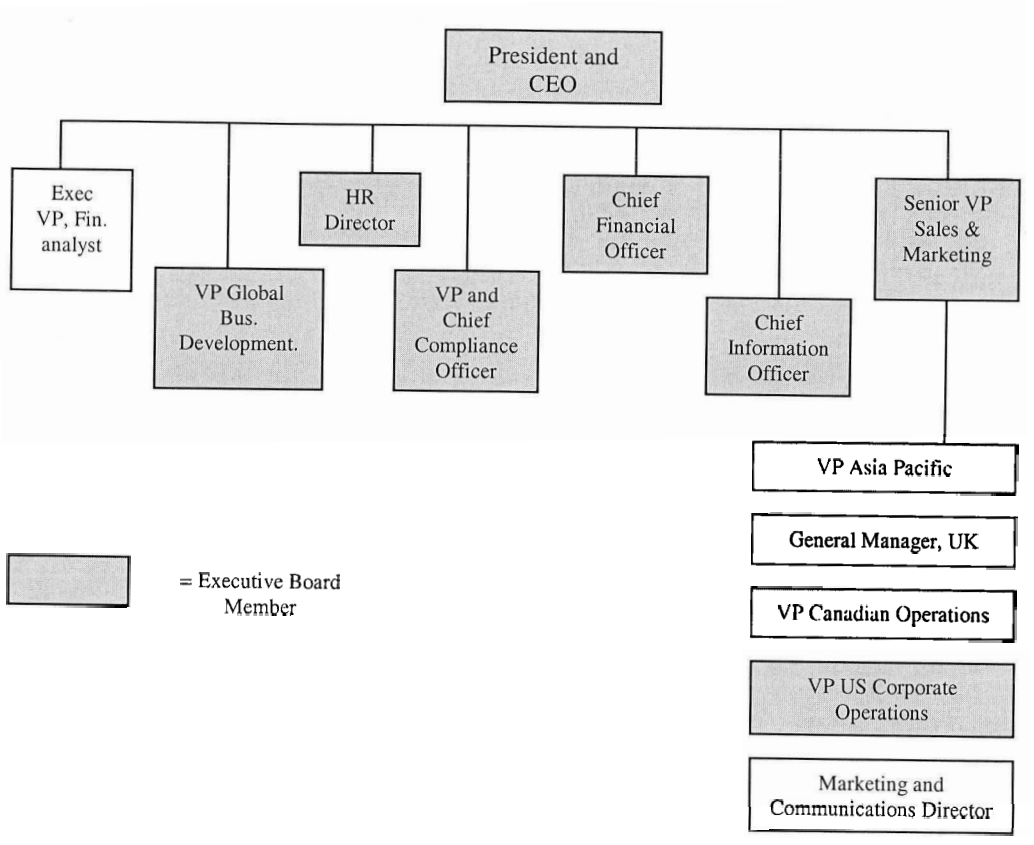
6.1 Management Preferences

6.1.1 The Management Team

Global Forex's management team is comprised of several vice-presidents and directors responsible for key functional areas, each of which report to the President and CEO (Figure 13). The size of the management team has grown in recent years, as the company has recruited senior individuals with expertise in finance, compliance, human resources, and information technology. Different geographic regions also have senior managers responsible for their areas, each of which report to the Senior VP Sales and Marketing. Of the management team, select members participate in the Executive Board, which sets the strategic direction for the company.

[25] Joseph N. Fry and Peter J. Killing, *Strategic Analysis and Action*, fourth edition. (Scarborough: Prentice Hall Canada, 2000).

Figure 10 Organizational Chart



6.1.2 Strategic Direction and Decision Making

One of Global Forex's greatest strengths is that it has a senior management team entirely focused the goal of successfully growing the company around the world. Global Forex is still small enough that regular, open communication is possible between the senior management and executive board, although communications can be a challenge at times because of geographic diversity. The management team is completely committed to using e-commerce products as catalyst for international growth into a number of industry sectors. They are now grappling with how to best reach their goals and build the people, systems and structure that will help take the company to the next stage.

6.1.3 Management Capabilities and Culture

As a small business that grew into an international organization, Global Forex has proven itself to be an organization with strong leadership and direction. The management team is a combination of old guard and new guard, which reflects the CEO's willingness to bring in new talent when the growth of the company demands new or different skills sets beyond the abilities. The company's entrepreneurial environment and culture, set by the CEO, has attracted top talent around the world that is steadfastly working to build the company's sales channels, develop its IT products, and keep up with daily operations. The level of commitment within the company is remarkable and not often seen, which is a testament to Global Forex's leadership.

Although the management team is comprised of talented individuals fully capable of driving the company forward, the company is struggling in some areas due to the pace of change – Global Forex is at a critical period in its growth, when many companies fail due to costs escalating too quickly, before revenues derived from growth materialize. To successfully reach the next stage, the management team must guide the company through the implementation of

greater centralization, improved efficiencies, better employee communications and the development of new products and business opportunities. The inherent tension between the need for process improvement in order to increase capacity and the need for e-commerce products to support sales channels is one of the major issues with which Global Forex's leadership grapples. This is a culture shift for some of the management team, who have been used to focusing entirely on building new opportunities as opposed to building an established company. As Global Forex moves towards wrapping more of its strategy around e-commerce products, managers are also being challenged to increase their technical literacy and understand the intricacies and challenges of software development.

Change management is the key area where the management team is seeking to grow, and it has brought in outside expertise to conduct a comprehensive review of the organization's business processes and make recommendations for improvement. This will undoubtedly be accompanied by efforts to improve employee communications through the company's new Human Resources Director, who will help see that change is disseminated and implemented around the world.

Successfully leading the company's transition into a an efficient organization with mature business processes is absolutely critical to Global Forex's success. This will ensure that:

- The company's costs do not escalate unnecessarily;
- The global sales and marketing strategy targets correctly and meets its mark;
- All e-commerce solutions are successfully deployed in short order;
- The business is diversified around the world and across industries; and
- Customer service remains strong.

6.2 Resources

"Resources" refers to the financial, operational and human resources necessary to help Global Forex achieve its strategic goals, in light of the opportunities and threats facing all industry players and the Key Success Factors that must be met in order to succeed.

6.2.1 Financial Resources

Global Forex is in a strong financial position, and thus far has been able to finance its growth by reinvesting profits back into the company. The company has consistently shown a steady increase in profits, although there is more pressure on the bottom line now than there was in previous years due to increased internal costs. The company is privately held, with commitment from the shareholder to financing growth and its related costs. As Global Forex continues to expand globally, it may find that it needs greater resources through either debt or equity financing. The management team already has a number of options in place should it decide to pursue this type of financing.

One of Global Forex's biggest challenges is going to be managing its costs as it continues to build the infrastructure that will support its growth. Although the company is a foreign exchange dealer by trade, its strategy is morphing its operations into an information technology company, at least in part. At the same time, the company is investing substantially in expanding various head office operations to keep up with the pace of growth and meet regulatory requirements. Historically, Global Forex has used a fairly simple costing model as operations were mostly domestic through branches that each measured their own profit and loss. Head office costs were minimal, there were no plans to base the company's expansion on information technology, and as such there was no need to apply costs back to branches let alone e-commerce products. This has obviously changed – Global Forex now has much larger head office operations and is basing its growth on the development, deployment and maintenance of a number of IT products. However, the company's cost tracking systems have not yet caught up to

its evolving business model, which leaves some gaps in management's ability to measure and understand the true profit their e-commerce products are generating and the costs that will be incurred as the company grows. To take this further, without being able to understand what costs are being created *per transaction*, the company can not adequately price current services, understand what a substantial expansion in volumes (particularly through Solution X) would mean to the bottom line, or understand which customer segments are the most profitable.

In the world of information technology, ASP companies that operate in a low margin, high volume environment are notorious for never turning a profit or for running into trouble when they expand, because they underestimate how much their costs will escalate. At the moment, Global Forex's branch operations and head office are subsidizing its e-commerce products. Product 1 is the clearest example – although the product's financial statements show a 30% contribution in profit to the company, if information technology, treasury and compliance costs were applied back to the product on a *per transaction* basis, it is questionable whether or not the product would actually be profitable. It is also possible that Global Forex would find many of Product 1's individual customers to be unprofitable, which is concerning considering the company's plans to migrate corporate customers (that have higher margins) to Product 2.

With the transaction volumes the company anticipates for all three e-commerce products, it is critical that they better understand the costs associated with each transaction before signing deals. That way, if a particular customer turns out to be unprofitable, it is by strategic choice to win market share, not by accident. This level of business intelligence will also give management insight that they can use for strategic business and product development and pricing:

- How costs differ between Product 1, Product 2 and Solution X transactions and how that should shape product development decisions;
- Costs associated with an ASP delivery model versus. a client installation delivery model (particularly for Solution X);

- Costs of system design choices – for example, Windows interface design (and the requisite client side installation) versus web browser design;
- Costs of features and enhancements compared to the revenue they will provide – for example, whether a French language product should be developed for French markets considering the size of those markets and potential revenues.

Each of these insights can combined with good market intelligence – that is, what customers are demanding – to make the right strategic choices for the company. They can also be used to develop hurdle rates or ROI requirements for future product development.

6.2.2 Operational Resources

Operationally, Global Forex is struggling to keep up with its current growth and implement efficient systems and structures that will facilitate future growth without greatly increasing costs. Following is a brief description of the situation in different areas of the company, gaps and steps that are being taken to address those gaps at this time (if applicable).

6.2.2.1 Sales

One of Global Forex's greatest strengths is its sales team around the world, which has successfully grown the company to its current state and is pushing Global Forex to the next stage. The challenges the team is facing are reflective of the pace of growth and the shifting culture of the company. First, they lack the coordinated information (through customer relationship management solutions and market research) needed for company-wide sales planning and customer tracking. In response to this, Global Forex is currently researching CRM solutions that may help fill this information gap. Second, the team is still adjusting to changes in company policy that are centralizing more functions. For example, whereas previously branches had the ability to set their own credit policy, this is now being drawn back into head office. The company has recently restructured its operations and hired a Human Resources Director, which should go a long way towards addressing this information gap in the coming months.

Third, two very different types of sales teams are evolving – traditionally, the domestic branches have used a fairly simple approach to sell basic foreign exchange products and services to the SME market. The newer, international sales teams are targeting larger, corporate markets with the new e-commerce products, and these teams bring with them an approach and expectations that are a challenge to traditional ways of doing business in some branches. As Product 2 is fully rolled out, Global Forex will have to provide greater training and support for the SME branches that are not used to selling technology products or understanding their value add to customers. Solution X will be even more complicated to sell and will require a fair amount of consulting skill and technical sophistication from the salesperson.

6.2.2.2 Marketing

Centralized marketing is a fairly new activity for Global Forex, as previously many marketing activities were done at the branch level. The company has successfully managed to implement some coordination of marketing activities and developed some marketing collateral in support of branch activities. However, the marketing function to date has not been integrated with the strategic sales direction of Global Forex, which the company is taking steps to address. To achieve Global Forex's goals, marketing activities may need to be realigned so that they support the strategic growth and product development priorities of the company and add value to sales functions. This is critical to successfully launching Product 2, Solution X and a revamped Product 1 into international markets.

6.2.2.3 Treasury and Accounting

The treasury department provides a unique competitive advantage to Global Forex in that all activities are centralized, which reduces costs. However, this also means that the group needs to single-handedly keep up with the phenomenal growth of the company and corresponding increase in transaction volumes. The department is operating at full capacity at this time, and will have great difficulty accommodating further growth without the implementation of more efficient

systems both across the company and within the department. Treasury is highly dependent on the Information Technology department quickly delivering its promised new banking system so that volumes can be increased – in the meantime, a dramatic increase in volumes due to a large Product 2 or Solution X sale could break the department's current systems completely. Further, Treasury and Accounting cannot provide the previously-mentioned detailed transaction and costing data until its banking system is replaced.

6.2.2.4 Information Technology

Information Technology at Global Forex has come a long way in the last few years. Since hiring a Chief Information Officer to lead the development of new products and redevelopment of the banking system, the team has successfully delivered the first iteration of Product 2, is slowly redeveloping the banking system, is maintaining the legacy systems such that they continue to support operations and has modernized the technical infrastructure throughout the company. The cultural and knowledge gap between IT and the "business" side of the company has also been greatly reduced through the introduction of 1) an IT Steering Committee that sets strategic priorities, and 2) product champions from the business (not IT) that lead specific projects.

None the less, the department is facing several critical challenges. First and foremost, new systems are not being delivered quickly enough and the straining of resources is causing those releases that are delivered to be lacking in desired usability standards, product features and quality standards. To address this, the department is currently reviewing its operations and looking for ways to efficiently expand and speed up development. Second, the business is not as involved in each stage of a product's development as it should be, although this is improving. As a result, the development team is making decisions independently that could negatively impact future sales channels. This is reflective of schedule pressures and a communication gap that still exists between IT and the rest of the company. Third, the strategic growth priorities of the

business are not necessarily being integrated into the direction given by all product champions. For example, although the company has the intention of selling many back-end banking system functions through Solution X, the banking system is not necessarily being developed with this intent, as the development is still being guided towards a system for internal treasury and branch use (while Product 2 development was clearly guided according to the demands of the sales channels).

6.2.2.5 Compliance and Internal Audit

The Compliance and Internal Audit department's implementation of new policies and procedures has helped Global Forex get to its current state and enter the multi-national corporate market. The biggest challenge of the department is keeping up with the company's growth plans, as Compliance must research and make recommendations on entering new markets before the company acts, while at the same time implementing policy and monitoring activities throughout the company. This is a significant challenge for a skeleton staff, and the department is looking at a number of ways of automating monitoring activities to reduce manual workloads (and related costs). Like the Treasury department, Compliance is heavily reliant on IT being able to quickly implement the new banking system with the required security features. Without this, Global Forex is vulnerable to fraud, money laundering and possible investigations and fines from authorities.

6.2.3 Human Resources

Global Forex has an extraordinary team of people around the world who are all committed to seeing the company succeed. As the company continues to grow and the culture shifts, there will be challenges as the organization moves beyond the skill sets of some individuals. Handling these situations carefully, restructuring and bringing in new employees as needed will be critical. As previously discussed, there are many operational gaps at this time that

need to be partly filled by better technical and operational systems, and partly by hiring more staff. That said, just hiring large numbers of people will not necessarily help Global Forex achieve its goals – in fact, it could do the opposite. At this time, human resources policy and systems are highly inconsistent across the company because of the pace of growth to date, and company-wide employee communications and training is difficult. Before ramping up staff (aside from considering costs), the company must address these issues. The recent hiring of the Human Resources Director is intended to fill this gap.

7 RECOMMENDATIONS

This strategic analysis has shown that Global Forex's strategy is promising – it is operating in a profitable and fairly protected industry environment, there is good potential for market growth, and customer demand for e-commerce solutions (although there is some question about the viability of Product 1 over the long term). To successfully fulfill its strategic objectives, the company will need to address the gaps identified in the *Internal Analysis.* Following are some brief recommendations for making changes that will begin to address these gaps.

Implement Systems to Track Costs per Transaction and per Customer

To make good strategic choices and profitably expand markets for Product 1, Product 2 and Solution X, Global Forex must have better costing data. This will support good sales planning, and will help the business clearly understand which products are most profitable and why. If it turns out products (or customer segments) are not profitable, the business will be able to make strategic changes in response. If the company does not do this it is in danger of marketing products that drain company resources in spite of the increased volumes they create.

Develop and Deliver Information Technology Products as Quickly as Possible

As Global Forex is quickly falling behind its largest rival in the rollout of its e-commerce products, and because the company is struggling so greatly to operate and grow using legacy systems, the company must make the investment and structural changes necessary to speed up its IT development. The IT team is already considering retooling the development process such that more work can be done in parallel and more releases can be delivered at one time. This approach increases the overall project risk, but to maintain leadership in the market these systems must be delivered within the next 18 months.

Better Integrate Business Strategy with Information Technology Development

Global Forex is doing well, particularly for a non-software development company by trade, at ensuring business priorities drive IT development. However, to successfully ramp up IT deliveries, the business will need to be much more involved with daily operations and decisions made by the development team. Product champions, the business representatives, will need to be sure they provide a clear, consistent and well communicated vision to the IT department through all stages of a software release – analysis, design, development, and implementation. Currently, product champion roles are held by individuals in the business with a number of other job priorities elsewhere – sales, treasury, accounting, etc. Different product champions represent different functional areas. To ensure that IT gets good information and their activities are reflective of the company's strategic product development and sales goals, Global Forex should consider consolidating product champion activities underneath one "product manger" role or group that reports to the VP Sales and Marketing. This would not preclude involvement by other critical stakeholders – for example, the Treasury Department must provide their own requirements for system development. However, centralizing product management in the business would ensure that an overarching vision guides all system development. For example, the product manager(s) would ensure that:

- All requirements for back-office functions are presenting in a way that they take into account the business's strategic growth priorities;
- Scoping decisions made by project managers (in IT) do not negatively impact the ability to market and sell the products or result in software that will need to be redesigned before it can be launched to the customer;
- Design technique decisions made by IT reflect cost priorities and market demands as well as technical priorities;
- Planned functionality is implemented in the way it was intended;

- System terminology is reflective of market demands;
- User interfaces (or faceplates) meet customer needs and reflect the business's standards for branding and presentation (particularly if Global Forex moves towards using agencies for international branding);
- Training activities adequately educate customers, the sales force and back office employees.

Without other duties, the product manager(s) could be much more closely involved with day-to-day software development activities than they are now, provide guidance and input at critical stages, and steer the development team towards decisions that consistently support strategic business priorities.

Consider how to best Structure Global E-Commerce Sales

As Global Forex moves into the realm of selling technology solutions, it will need sales staff capable of understanding how to win profitable business for these products, particularly Solution X. Salespeople will need to be able to effectively consult with clients on how Global Forex's products best fit into and add value to their operations, and identify what complications and customization issues may arise during implementation. Further, they will need to be able to effectively price Solution X based on this knowledge – either through the rate spreads or other, negotiated agreements. This requires technical, sales, costing and pricing knowledge and experience that may be beyond the capabilities of some team members at this time. In addition, as developing partnerships with financial institutions and technology service providers is a major opportunity area, the sales team will need people experienced at negotiating these types of deals for integrated software solutions. Given these complexities, Global Forex should consider consolidating at least some of the more complex selling functions within a few senior sales roles directly under the Senior VP Sales and Marketing.

Restructure Marketing Functions

For Global Forex's marketing functions to better support the company's strategic product and business development priorities, the company should consider restructuring these activity areas. First, marketing could be split into two key streams – branch marketing for the network still selling traditional services to SMEs, and product marketing for international branches building their business through the e-commerce products. Product marketing could be either integrated with or closely related to the product manager(s) teams, to ensure strategies align. Either way, product marketing activities should focus on market research to build sales channels for the products, strategic partnership development (for example, co-branding opportunities with financial institutions), and supervision of marketing material preparation. Branch marketing activities could focus on event planning support and supervision of marketing material preparation. Marketing communications (marketing material design, advertising, branding campaigns, etc.) could be fully outsourced to agencies with extensive experience building a global brand in the financial services or brokerage industries. Supporting communications activities could remain internal, for the purpose of implementing and maintaining creative direction set by the product/branch marketing teams and agency partners. Finally, media and public relations could either remain an internal function or be outsourced depending on which is most cost effective and supportive of strategic goals.

Invest in Human Resources Communications and Systems

Global Forex's new Human Resources Director is going to need support across the company in order to effectively implement change and guide the organization through its next stage of growth. As the company is spread around the world, it will need to invest in communications tools and training techniques that cost-effectively disseminate management's strategic vision, deliver new policies and communicate company priorities. This may require

investment in an enhanced corporate intranet (which would include a training portal) as well as staff positions solely dedicated to training delivery.

Maintain Customer Service

When companies expand quickly, it can often be at the expense of service to existing customers, particularly when resources are stretched thin. As Global Forex has built its reputation on providing outstanding customer service, it is critical that the company maintain this priority. As with building effective sales, implementation of a customer relationship management (CRM) solution that provides good customer data (along with data from the new banking system) will help branches monitor and attend to current customer needs.

8 CONCLUDING REMARKS

In conclusion, Global Forex's strategic decision to base much of their future expansion and business objectives around e-commerce solutions is a sound strategy. Our industry analysis clearly demonstrated that the competitive environment is attractive, although there are some threats to watch out for – particularly threat of entry. However, each of the major threats arising from the analysis are countered by strong opportunities. In essence, threats to industry competitors can all be considered opportunities if they are approached in the right way and if the competitor is able to develop the necessary key success factors. For Global Forex to be able to do this, the company must address some areas of weakness as highlighted in the *Internal Analysis* by implementing the recommendations outlined in *Section 7, Recommendations*.

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