

# **A COMPANY IN TRANSITION: DEFINING CULTURE**

by

Diane Sullivan

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION  
EMBA Program

in the

Faculty of  
BUSINESS ADMINISTRATION

©Diane Sullivan 2004  
SIMON FRASER UNIVERSITY  
August 2004

All rights reserved. This work may not be  
reproduced in whole or in part, by photocopy  
or other means, without permission of the author

## **APPROVAL**

Name: Diane Sullivan  
Degree: Master of Business Administration  
Title of Project: A Company in Transition Defining Culture

Supervisory Committee:

---

Dr. Neil R. Abramson  
Senior Supervisor, Associate Professor  
Faculty of Business Administration

---

Dr. Ed Bukszar  
Associate Professor  
Faculty of Business Administration

Date Approved:

August 10, 2004

## Partial Copyright License

I hereby grant to Simon Fraser University the right to lend my thesis, project or extended essay (the title of which is shown below) to users of the Simon Fraser University Library, and to make partial or single copies only for such users or in response to a request from the library of any other university, or other educational institution, on its own behalf or for one of its users. I further agree that permission for multiple copying of this work for scholarly purposes may be granted by me or the Dean of Graduate Studies. It is understood that copying or publication of this work for financial gain shall not be allowed without my written permission.

**Title of Thesis/Project/Extended Essay**

A Company in Transition: Defining Culture

**Author:**

---

Diane Sullivan

August 9/04.

Date

## **ABSTRACT**

This project is a strategic analysis of SuperPages. The paper examines the critical role culture, leadership talent, and depth of bench strength has on executing a high growth strategy while maintaining a high quality product, produced efficiently, for a low cost.

SuperPages is in transition as it has expanded at an exceptionally rapid pace. It has realized tremendous financial success as it has grown, from 450 to 1500 employees in three years, and doubled its top line revenue. While this degree of success has been exciting, the company has outgrown the ability of the internal structures to keep pace with the external demands. If the company continues on the same path unabated, it will be unable to meet the financial targets established as it will no longer be capable of producing the volume of work, efficiently, resulting in errors that are already starting to impact profitability.

The consequences of this rapid growth have been depleted bench strength. Employees are new in their roles and unsure of what is required of them, who to go to for answers or help, and they are surrounded with people facing the same dilemma. The leadership team is adjusting to a new way of doing business, new systems, and processes, as well as managing remotely as the company expands and their employees are in different geographic areas. In many cases, these leaders are new to the company. The corporate vision, articulated strategic direction, and communication that formed the culture and set the foundation for rapid growth are no longer in place. The old culture has not been supplanted with anything more compelling, which leaves employees either, confused or determining for themselves which direction the company is going. This misalignment is creating inefficiencies and frustration. Duplication is occurring as two individuals in the same department, or two different functions, complete the same work, and wasted efforts is compounding the frustration as employees unwittingly complete work on things that are no longer a priority for the company.

SuperPages needs to engage the employees in a common vision to ensure success as it continues its goal of becoming the premier directory in Canada.

## **DEDICATION**

This project is dedicated to Mike for his unfailing love, support, insight, and generosity of spirit and time. Also to my children Meaghın, Beth, Kate and Chad for your hours of housework, easy company, and ready-made meals, thank you, you guys are the best.

## **ACKNOWLEDGEMENTS**

This paper has been a journey of learning and there have been a number of individuals I would like to thank and acknowledge that have influenced this project from inception to end.

Doug Gavin for the belief in my ability to balance work and school and gave me the freedom to do this. Your vision for the company and conviction that the company's success is only limited by the capability of the employees has been an inspiration for this paper.

Susan Jones for your friendship, encouragement, and great editing skills.

To the many employees of SuperPages, my heartfelt appreciation for giving unselfishly of your time, answering countless questions with thought and consideration, and sharing your knowledge and love for this business.

Neil Abramson for your guidance, and pep talks, you made this paper much richer with your insight, questions and suggestions.

Also a special thank-you to the International Cooperative, for sharing your individual talents, wisdom and class notes, it has made the past two years a wonderful experience I will always remember.

## TABLE OF CONTENTS

<b>Approval .....</b>	<b>ii</b>
<b>Abstract.....</b>	<b>iii</b>
<b>Dedication .....</b>	<b>iv</b>
<b>Acknowledgements.....</b>	<b>v</b>
<b>Table of Contents .....</b>	<b>vi</b>
<b>Table of Figures.....</b>	<b>viii</b>
<b>Glossary .....</b>	<b>ix</b>
<b>1      Introduction .....</b>	<b>1</b>
1.1    Objective of the Paper .....	1
1.2    Methodology of Analysis .....	2
1.3    Company Overview.....	2
1.4    Vision Statement .....	3
1.5    Strategic Objectives .....	4
1.6    Verizon the Parent Company .....	5
1.7    Market Strategy .....	6
1.8    Market Share .....	6
1.9    Product Strategy .....	7
1.10   Strategic Issues .....	8
1.11   The Role of Culture in Implementing Strategy .....	9
<b>2      External Analysis.....</b>	<b>10</b>
2.1    Industry Analysis.....	10
2.2    Porter's Five Forces Analysis.....	11
2.2.1   Threat of Entry.....	11
2.2.2   Bargaining Power of Suppliers .....	14
2.2.3   Bargaining Power of Customers .....	15
2.2.4   Threat of Substitute Products/Services.....	17
2.3    Competitive Analysis .....	18
2.4    Value Chain Analysis.....	19
2.4.1   R&D.....	20
2.4.2   Manufacturing.....	22
2.4.3   Marketing.....	24
2.4.4   Sales.....	26
2.4.5   Customer Service.....	28
2.4.6   Key Success Factors .....	29
<b>3      Internal analysis.....</b>	<b>33</b>
3.1    Overview .....	33
3.2    Management Preferences .....	36
3.2.1   Decision Criteria.....	36
3.2.2   Management Capabilities .....	38
3.2.3   Managerial Predisposition .....	39
3.3    Resources .....	39
3.3.1   Human.....	39

3.3.2	Operational .....	42
3.4	Organization .....	44
3.4.1	Culture .....	44
3.4.2	Structures .....	46
3.4.3	Systems .....	48
3.5	Summary .....	51
<b>4</b>	<b>Recommendations.....</b>	<b>52</b>
4.1	Stabilizing Processes and Systems .....	52
4.2	Developing Leadership .....	54
4.3	Increasing Bench Strength .....	57
4.4	Culture.....	58
4.5	Conclusion.....	61
	<b>Bibliography .....</b>	<b>62</b>

## **TABLE OF FIGURES**

Figure 1: Annual Revenue for 2003 in the Canadian Directory Business .....	7
Figure 2: Competitive Forces in the Canadian Directory Industry .....	11
Figure 3: Industry Value Chain.....	20

## **GLOSSARY**

AGT	Alberta Government Telephone Company was merged with EdTel in 1995 to form TELUS.
CMR	Certified Marketing Representatives are an independent sales force that manages the advertising programs, including phone directory advertising, of large national companies.
CRTC	The Canadian Radio-television and Telecommunications Commission is an independent agency responsible for regulating Canada's broadcasting and telecommunications systems.
DDA	Directory Distributing Associates
DSMP	Directory Systems Multi Platform
ED Tel	Edmonton Telephone Company was merged with AGT in 1995 to form TELUS
KKR	Kohlberg Kravis Roberts and Company
PDC	Phone Directory Company produces competitor books in select markets in both Canada and the US.
TAS	TELUS Advertising Services was a full owned subsidiary of TELUS. This company was formed through the merger of AGT and ED Tel in 1995 and then purchased an independent directory Locator in Ontario.
VIS	Verizon Information Services is a world-leading print and online directory publisher and is a subsidiary of Verizon Communications, a fortune 20 telecommunications company.
VISC	Verizon Information Services Canada is the exclusive publisher of TELUS pages and a subsidiary of Verizon Information Services, a world-leading print and online directory publisher.
YPG	The Yellow Page Group is the exclusive publisher of Bell Canada directories in the east.
YPIMA	Yellow Pages Integrated Media Association

# **1 INTRODUCTION**

## **1.1 Objective of the Paper**

This paper will present a strategic analysis of the Canadian telephone directory company SuperPages, a wholly owned subsidiary of Verizon Communications Inc. The company today is in a period of transition as it evolves from a well-aligned, regionally focused, established, systematic and mature company that was the exclusive publisher of print directories for TELUS, to a national company publishing not only for TELUS, but also operating independently as the competitor book in new markets. This transition has been complicated with a new strategic direction, shifting internal structures, new policies, new strategies, and new systems.

The objective of this paper is limited to an analysis of how employees and culture impact the ability of a company in achieving an ambitious strategy. This will involve a discussion of the consequences of rapid growth in a changing business environment and the capacity of the internal structure to keep pace with the aggressive expansion plans. Integral to the discussion will be the importance of the role that the company culture has on its ability to realize the existing strategy of producing a high quality product at a low cost.

The company has grown from 450 employees in January of 2001 to just shy of 1500 employees today and has enjoyed double-digit revenue growth for the first time in recent memory, attaining it in each of the last 3 years. An aggressive new strategic plan has been implemented with tremendous financial success to date. In the midst of this success, the company faces the challenge of building an internal infrastructure in tandem with a continued rapid rate of growth over the next few years.

The company's success in the past has been the result of the depth of knowledge the employees have of the industry, the processes, and procedures, in order to run like a well-oiled machine. The company has changed. Of the 6 senior executives in 2001, only 2 remain today. The president of the company has changed three times over that same period as well which has also had an impact on the organization. The goals have changed, the products have changed, and the systems have changed. Long-time employees who at one time prided themselves on their expertise are no longer as confident in their ability. There are offices where virtually everyone is new to their position. Some employees have not been able to cope with the magnitude of change and have left the company, reducing the depth of organizational knowledge. The company needs to do a careful assessment of the current situation in culture and bench strength, and then develop a plan to address the alignment of the employees to a common goal. The alignment needs to be accomplished concurrently with an aggressive growth and development plan that can assure the

knowledge and expertise of the employees is once again a competitive advantage, and provides a solid foundation for the implementation of the strategic objectives.

## **1.2                  Methodology of Analysis**

The methodology will begin with an introduction to the company. This will then be followed by an industry analysis that looks at the changes the telecommunications industry is facing today, and, specifically, how it relates to the directory business. There will be an in-depth internal analysis of SuperPages, the company's generic strategies, how it adds value to its product, and how the growth strategy of acquisitions and expansion into new competitive marketplaces impacts the newly formed national company. This paper will demonstrate how all of the above conditions have consequences on the workforce, and then examine the competing cultures that are emerging in the company along with an assessment of the current bench strength. Following the examination, options will be identified and evaluated against key success factors and the company's capabilities. Finally, there will be recommendations regarding the challenges currently facing the company.

## **1.3                  Company Overview**

Dominion Directories originated in 1929 as a subsidiary of GTE, selling advertising for the Yellow Pages to small and medium sized businesses. As the company diversified, adding products and services, it became Dominion Information Services, publishing the TELUS Pages. In 2000, the parent company GTE merged with Bell Atlantic, forming Verizon Communications Inc., a Fortune 20 Telecommunications conglomerate and the largest producer of directories worldwide.

In July 2001, Dominion Information Services Inc. came under the eye of the competition bureau when it purchased TELUS Advertising Services (TAS). The acquisition resulted in a company of 450 people, operating in BC with a small office in Rimouski, Quebec, doubling its employee base overnight by adding offices in Alberta and Ontario. One year later, the company legally changed its name to Verizon Information Services Canada Inc., doing business as SuperPages. This was a turning point for the organization. It became a national company combining several distinct cultures, while embarking on a rapid expansion strategy coupled with a goal of double-digit revenue growth over the next several years. The change in focus was quite dramatic, coming after a period of almost non-existent sales growth. Today, the company's head office remains in Burnaby, employing 1500 people in twelve offices from Victoria to Halifax.

SuperPages currently produces 122 Print Directories. In 2001 the company launched a new delivery channel, SuperPages.ca that is currently the number one online directory in Canada. The foundation of the company's success over the past hundred years has been a continued focus on its core competencies of managing the process of efficiently, cost-effectively producing high quality directories, a knowledgeable, skilled workforce, and the capacity to satisfy ever-changing needs of advertisers and consumers alike.

#### **1.4 Vision Statement**

The company's vision statement was created in the mid nineties but has become even more important over the past few years as the company has grown and faced challenges with the quality of the product. The statement is as follows: "*To be the Ultimate Source of Information Bringing Buyers and Sellers Together Anywhere, Anytime*". The *Ultimate Source* refers to the need for accuracy of the product and the fullness of content found in each Directory. The accuracy of the product has suffered with the introduction of a new operating system coupled with processes that are aligned to regional legacy systems, not national in scope. *Bringing Buyers and Sellers Together Anywhere, Anytime*, emphasises the importance of the delivery channels and distribution strategy. With the emerging popularity of the online directory and absence of existing brand equity in competitive markets, it becomes increasingly more important to be instantly available when the customer is ready to buy something and that they have a SuperPages directory at their fingertips, either a book or online to do so. The value the company provides to the advertiser is the reach and usage they have to consumers through the directories.

To employees that worked for the company prior to the TAS acquisition, the vision was understood and directed their day-to-day activities. This focus was one of the reasons the company was awarded the Canadian Award Excellence in 1997. Today, for most new employees, this statement is just words on paper and not a working philosophy of doing business. They do not understand the business application of the vision statement or the relevance to themselves as it pertains to their working environment or the product they produce.

## **1.5 Strategic Objectives**

Following the purchase of TELUS Advertising Services, SuperPages primary objective was to be the directory of choice in Canada. They believed they could accomplish this through the following six Strategic Objectives. However, each objective creates its own challenges.

*Reinforce the value proposition.* This translates into reinforcing a strong brand name through continuously offering innovative products and services to satisfy both the advertiser and the consumer. This has required a focus on product development, new positions and new skills required to fulfill the demands of an online product, and well trained, knowledgeable sales people so that the brand offering is consistent across the country. This has been a great challenge with the rapid increase in company size and turnover of employees.

*Increase product penetration.* The intention with this strategy is to ensure more customers are buying advertising in the print product, that the online product is introduced on every sales call to current print advertisers, and then bundled as an alternative delivery channel, increasing reach for the advertiser. This strategic direction introduced a whole range of new positions to the company to ensure the operational commitments could be realized. This creates a requirement for a more sophisticated work force that understands, not only the print advertising, but also the online potential to existing print clients.

*Capitalize on our eastern markets.* The company's strategy is to enter select new markets in Eastern Canada with a flawlessly executed plan. In the eastern markets, the company is the competitor, which has implications for how the market is approached from both a marketing and training perspective. The brand is unknown and the major competitor has the dominant market share. The rules of engagement are different when you are the competitor and the newcomer than when you are the incumbent. You must approach the marketplace more aggressively and are received with more scepticism by both advertisers and consumers. It has been a continuous challenge to adapt to this fundamental shift in positioning in these markets.

*Grow western markets.* SuperPages has 85-90 percent market share in the incumbent markets of BC and Alberta. Growing these markets involves enhanced product offering, product penetration, and excellent service delivery. This is a critical strategic objective because the growth in these areas funds the ability of the company to expand in the eastern markets. This also poses a risk of complacency if the marketing team take this area for granted while they focus on the online and eastern markets that are newer and more exciting. For the sales teams in the western markets, the sin of arrogance when dealing with repeat clients needs to be closely monitored as the

customers are being constantly solicited for their advertising dollar and are becoming more educated to their options in a market that has a variety of substitutes.

*Enhance community recognition.* This is a grassroots effort to be publicly supportive of the communities in which SuperPages does business. The company is the national presenting sponsor of the Juvenile Diabetes Research Foundation Walk for the Cure, as well as the sponsor for countless hockey teams, softball teams, and other community groups across the country. This visibility in communities creates brand awareness and reinforces the company's goal to be a good corporate citizen.

*Create an environment where people can be their best.* This is a new strategic initiative developed to counter the increasing employee dissatisfaction over the magnitude of change imposed by the rapid expansion and the implementation of new systems that often did not work. This defines the company's focus of encouraging commitment to continuous improvement and professional development. The company spends in excess of a million dollars a year on employee training and development and has always maintained that high employee satisfaction has been a foundation of its success. This initiative has been articulated to underscore the future success of the company will be through its employee's development.

## **1.6           Verizon the Parent Company**

SuperPages is a wholly owned subsidiary of Verizon Communications. A Fortune 20 company, Verizon Communications is one of the world's leading providers of communications services, with approximately \$68 billion in annual revenues. Verizon's international presence is primarily in the Americas and Europe.

SuperPages reports directly to Verizon Information Services (VIS) a subsidiary of Verizon Communications that is a world-leading print and online directory publisher. The head office of the Canadian operation is located in Burnaby and for all business activities, operates as an independent entity reporting financial results to the parent company. VIS had over four billion dollars in revenue in 2003 with a 49.1 percent operating margin. In 2003 VIS had a total annual circulation of 141 million copies of the print directory. In the first quarter of 2004 there were in excess of 108 Million searches done on SuperPages.com (the American counterpart to SuperPages.ca).

## **1.7                  Market Strategy**

Today, SuperPages is in transition as it expands into new markets, produces competitor books in independent markets, grows market share in incumbent markets, offers new and unique products, and adjusts to being a national company. Growing the business from its core operations in BC and Alberta, with limited additional headcount in non sales functions, while integrating systems and implementing a new customer management system, has challenged the execution of the company's strategic plan for expansion.

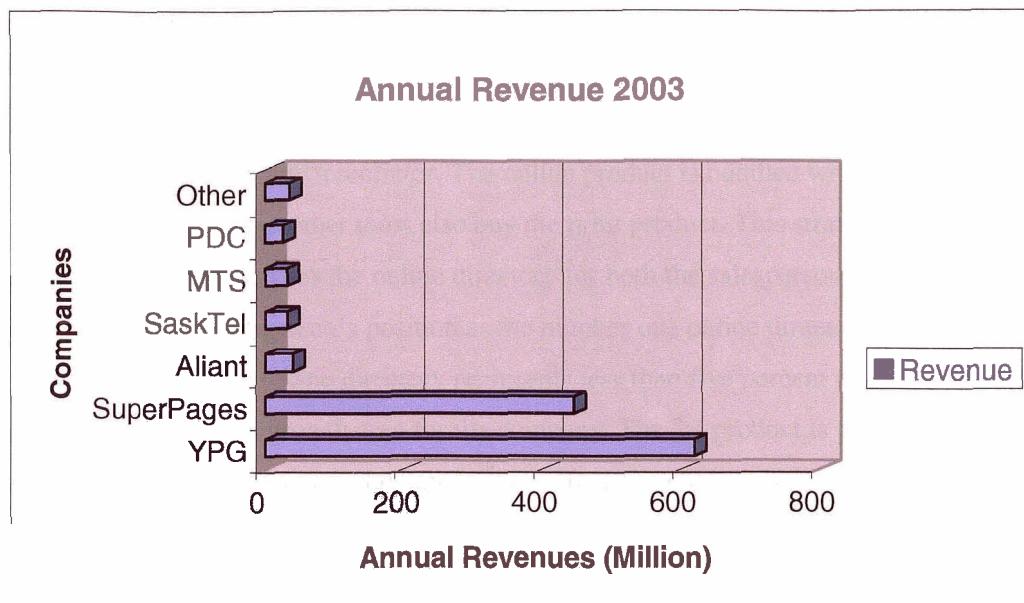
SuperPages began expansion with the acquisition of TAS in 2001, which included offices in Alberta and Ontario. SuperPages then continued its expansion establishing new offices in Montreal, Quebec City, Winnipeg, and Halifax producing directories for the first time in competition to the incumbent Yellow Pages Group (YPG). Phone books were also published in Ottawa, Saskatoon, Regina, and Swift Current, where offices have not yet been established. All phone books produced outside of BC and Alberta are competitor phone books with the exception of eleven small TELUS directories produced in Rimouski, Quebec. For the next five years, the forecast is to continue double-digit growth each year through a combination of acquisitions, entering new markets, and building the customer base.

## **1.8                  Market Share**

Two main players dominate the Canadian print directory market, the Yellow Pages Group (YPG) and SuperPages (VISC) as can be seen in Table 1. Both companies have been operating for close to one hundred years. The YPG has been the incumbent in the East and SuperPages has been the incumbent in BC and Alberta with very little foray into overlapping markets until recent years. In the prairies the government owned Telco's have published the incumbent phone directories. There have been a number of small independent publishers entering niche markets in recent years but no serious competitors for market share have entered into the industry in many years.

Joining YPG and VISC are smaller directory companies. SaskTel, which produces the directories for the Saskatchewan phone company, MTS (Manitoba Telephone Service) a fully owned subsidiary of the telephone company, PDC (Phone Directory Company) which produces competitor books in select markets in both Canada and the US, and Aliant, the directory company in the Maritimes are all in the market.

*Figure 1: Annual Revenue for 2003 in the Canadian Directory Business*



The telecommunications industry is in a period of significant transition moving from vertical integration, where the Telephone companies (Telco's) owned every segment in the telecommunications industry from the wiring infrastructure to the print and distribution companies, to horizontal integration where identified operating units are being sold. In recent years Telco's have been selling off their directory companies and the directory companies are looking to consolidate and expand their reach into new geographical areas through selectively buying up independents in the lucrative markets.

### **1.9 Product Strategy**

The product strategy revolves around two key areas, product differentiation and bundling. The goal is to be an industry leader in product innovation and enhancement. The company develops new and innovative products that are consistent with the organizations' core competencies. One recent example is the Go Pages, an extremely well received initiative. Go-Pages is a miniature phone book that is designed for use in the car. Postal codes, maps, menus, coupons, and City Scene are features that differentiate SuperPages directories from the competitor. SuperPages is leading the industry in product features and innovation with YPG being quick adopters. This has allowed SuperPages to enter the eastern markets quickly capturing 30% of the market without sacrificing price to do so.

The online product, SuperPages.ca, is a prime example of the company's product penetration and bundling strategy. The sales representatives are experts at selling advertising to small and medium businesses for their directory needs. This talent is being leveraged to sell online advertising during the same sales visit. The products are sold in exactly the same manner, with the delivery channel as the differentiator. The online product is bundled with the print. In order to get online advertising a customer must also buy the print product. This strategy has been very successful as it demystifies the online directory for both the salesperson and the advertiser, and is evidenced by SuperPages.ca's position as the number one online directory in Canada today.

Although the online directory represents less than five percent of the total revenues, it is considered the largest growth area for the company. The .ca product is positioned for frequent usage with partnership and portal agreements. The print product is positioned for usage by placing it in as many public places as possible, such as hotels, phone booths, restaurants and public buildings but also through a carefully crafted distribution strategy placing the books directly in consumers' hands.

## **1.10           Strategic Issues**

The Company has an aggressive five-year plan for rapid expansion and growth. In the past it has had considerable success focusing on its core competencies of selling directory advertising. This was done through a well trained, well compensated sales force, having a production and support staff focused on customer needs, as well as an organizational focus on quality, operational excellence, and profitability.

Future success could be compromised due to the fallout from rapid expansion, operational challenges, high turnover at the senior management level, weakened bench strength, loss of historically high tacit knowledge, and an undefined internal value system. The Company will require a renewed focus on the human capital and culture to fuel and sustain the growth.

## **1.11            The Role of Culture in Implementing Strategy**

The company's effectiveness and success has always come from the depth of knowledge and passion of its people. In a stable environment this worked very well, as these attributes were observed in the work environment. If you were new to your position, there were people all around you that were doing that job or had done it for many years and were experts at the processes and procedures that needed to be followed. During the transition from a small regional company to a larger national one, some of that strength has been lost. Some employees have not transitioned well to a national perspective, new systems, and different working environment, and have chosen to leave the organization. This, coupled with the draw on the leadership talent to move to the expansion markets in order to lead the growth areas, has left the depth of knowledge across all regions seriously compromised. The challenge faced in continued rapid growth comes from developing an external brand promise without the supporting internal brand identity to define the company. Through both the acquisition and entry into new markets, many different cultures are emerging, creating a challenge for the strategic fit. There are bureaucrats and entrepreneurs in the same company vying for the leadership position. Each feels they have the right approach when, in truth, a combination of the two are needed with some flexibility to respond to the market.

In order to support the continued growth while protecting the external brand, the company will need to define the internal brand identity and use this information to grow and develop the leadership bench strength and align the workforce to a common goal. In the absence of a defined culture, each location will create its own version of a brand promise. This could ultimately compromise the company's ability to sustain its growth trajectory, as the commitments we make to the customer may not be realized consistently. This could jeopardize the retention of customers. In particular, in the new markets, where the company is relying on establishing a strong brand awareness to achieve the double-digit growth plan it has in place over the coming years, are at risk.

**2.1****Industry Analysis**

The Telecommunications industry has been evolving over the last 10 years as the government deregulates the industry to allow for competition. Niche players have entered the market and new distribution channels, such as the online directories, have emerged. Historically, telecommunication companies have been vertically integrated organizations, owning all aspects of the business including listings, landlines, wireless communications, telephone directory publishers, printers, and even distributors in some cases. These conglomerates are narrowing the focus of their businesses to core competencies in specialized areas of telecommunications. For most companies this means divesting themselves of business activities that are not directly related to their area of interest. It began with the divestiture of printing and distribution and this is now being followed by the directory businesses. Two examples of directory publishers being sold are, the sale of TELUS Advertising Services to Dominion Information Services Inc. in 2001 and, in 2002, Bell Canada selling the major interest in Yellow Pages Group Inc. to KKR and the Ontario teachers pension. Verizon Communications has just recently sold their interest in the landlines and directories in Hawaii for similar reasons. These types of divestitures are funding the ability of the telecommunications companies to pursue specific areas within the industry. For example, TELUS has been aggressively pursuing the wireless market.

Today, the focus has become horizontal integration as directory companies become stand-alone entities. These new companies are increasingly interested in seeking new markets through mergers and acquisitions. For example, SuperPages has entered into several asset purchase agreements in the past two years, acquiring the telephone listings from several niche directory companies in Canada and YPG announced in May 2004 that it is interested in making an acquisition of a western directory and expressed interest in their major competitor SuperPages.

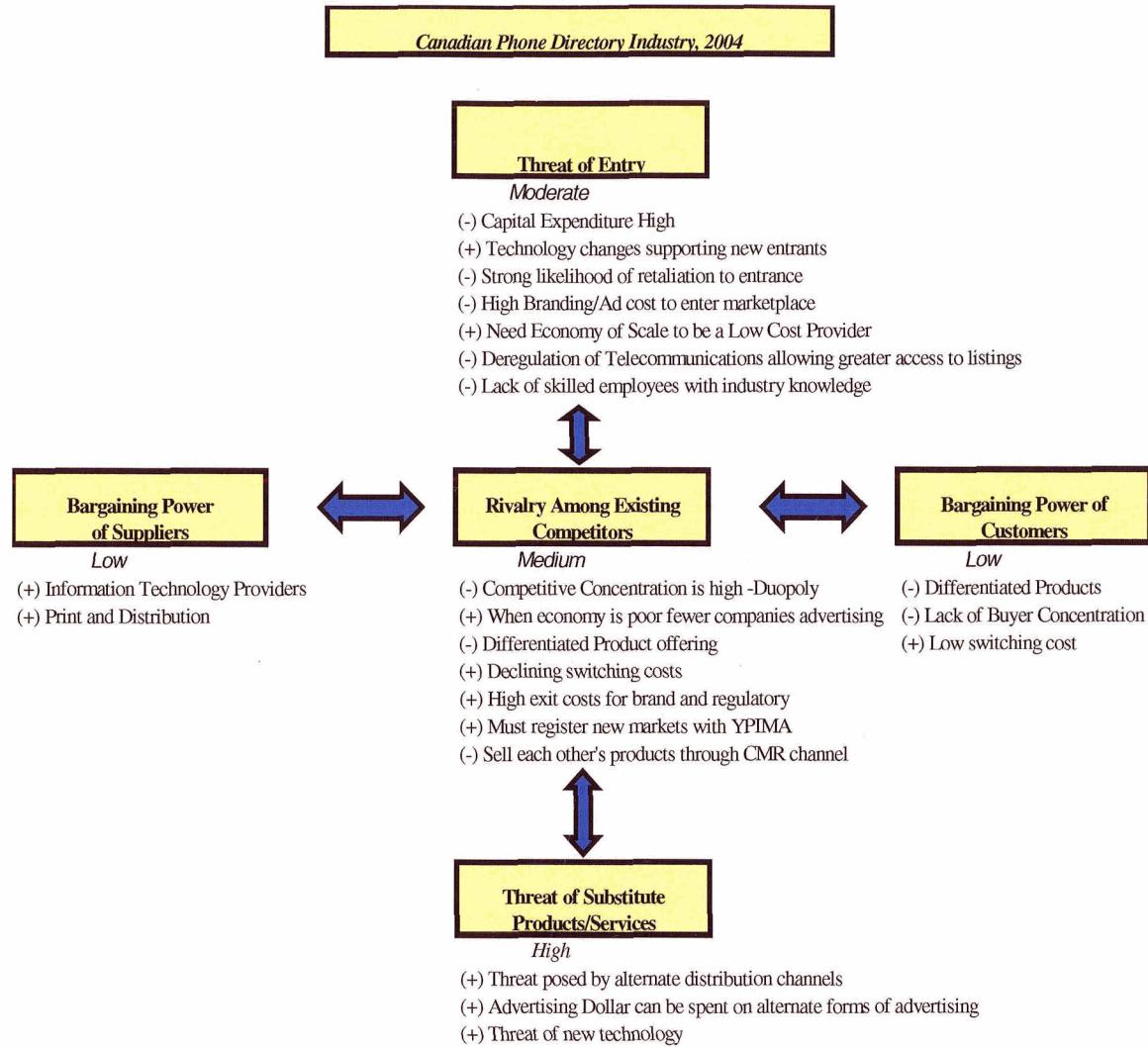
Historically the print directory companies have formed a mature industry segment, realizing 3-4% annual growth rates. This is changing with the aggressive expansion plans of the major companies, new products, and the introduction of the online directory, increasing the growth expectations for the directory companies.

Figure 2 following is adapted from, Porter (1980), Michael Porters 5 Force, Analysis is used to summarize, the power of the suppliers and customers on the industry, the threat or opportunity to the industry from new entrants or substitute products and the degree of rivalry in the industry. Each factor will be explored in more detail.

## 2.2

## Porter's Five Forces Analysis

Figure 2: Competitive Forces in the Canadian Directory Industry



### 2.2.1 Threat of Entry

Threat of new entrants into this market from the traditional print directory and online directories is moderate. It requires a large amount of up front capital and deep pockets to launch a print directory in a new market. It takes several years before the company enjoys the benefit of dependable revenue and stable strong cash flow. In Canada, the established directories have recognized brand names, have realized economies of scale, and have the first mover advantage

that has resulted in favourable learning effects. The most recognized brands are SuperPages, the TELUS Pages in the western markets, and Bell's Yellow Pages in the eastern markets. These brands have been associated with the Telco's for so long most consumers think of them as one and the same. The advantage of this association is, customers ask for and use these directories most often, which provide the advertisers with the reach and usage that make this an attractive product for their advertising dollar.

When directory advertising is sold to an advertiser, the expenses associated with the publication are paid as incurred. However the revenue stream is not realized until the books have been distributed to the consumer, at which time the advertisers are billed monthly for their advertising program. For existing publishers this time lag is not a problem as the billing and revenue stream is continuous from one year to the next.

New publishers need to consider that the production cost, selling expenses, and print and distribution costs are expended before any revenue is received. As an example of the magnitude of capital required, consider that for a phone book the size of Metro Vancouver the prepaid printing cost alone would be approximately five million dollars for a new distributor.

Once the book is published the company must then have an effective means of billing and collecting the revenue from customers for the next twelve months. One advantage for the directories that publish books as the incumbent for the phone companies is the inclusion of the directory billing with the telephone bill. This reduces administrative costs and encourages the advertisers to pay their bills. An independent publisher does not have the luxury of brand association. It must bill separately to the phone bill. Therefore many advertisers are not compelled to pay as quickly, and for some advertisers, not at all. They experience higher default rates and therefore their bad debt provisions must be higher. It takes approximately three years in a new market for a well-run company to realize enough revenue to compensate for the start up costs and not run at a loss. Once a business is established, the cash flow is very lucrative as a result of renewing advertisers and gaining new customers. The operating margins for the two main competitors are typically in the mid 40 percent range. For a new entrant the capital required, coupled with the time needed to establish the stable cash flow and brand name would prove to be a significant barrier.

For many years, there have been no new entrants to the Canadian market that have been able to establish a foothold. This can be partially attributed to the strong learning effects forming a barrier to entry. It takes one full directory cycle, or one year, for most people in the industry to fully comprehend the canvas cycle and be at maximum productivity. The directory business is

unique in how it operates so it is very difficult to hire people that understand the industry, and the finesse required in timing the production cycle, to be successful.

The directory cycle begins in pre-sales operations with the listings (or phone numbers) being acquired from the Telco. These are entered into the directory system. This information is sorted and divided into canvas areas and provided to a sales force. The canvas then begins with a carefully monitored period of time for the sales force to meet with all of the customers, conduct a needs analysis, introduce the products, and then make the sale. Once the sale is completed a post-sales team verifies it, the graphics are finalized, and the books are paginated prior to being sent to the printer. The ability to manage this process efficiently and effectively speaks to the success of the organization. The more competently the operations side of the business is handled, both pre and post sales, allows for a lengthened time in the market for the sales team which leads to the opportunity to achieve higher revenue. Once a book has been canvassed and put to print the resources are shifted to a new market so that at no time are resources left idle. Although this seems like a relatively simple process, it takes a great deal of experience and refinement to accomplish this cost effectively and efficiently. The stronger the management expertise the greater the competitive advantage in blocking entry to a market.

For a new entrant into a market the ability to hire trained experienced labour is a problem. Existing companies' guard their human capital closely requiring new employees to sign a non-compete clause prior to joining the company. This restricts the employees from going to work for a competitor within a given period of time and protects the company's investment in training and development. The majority of systems and processes are industry specific therefore, it is very difficult to hire people with Directory experience, and they need to be trained. As outlined above experienced labour is a critical factor to operating a firm effectively. It is anticipated to take approximately one year at a cost of \$50,000 to have one sales person fully trained and at their potential selling ability. On the operations side, it takes employees approximately six months to achieve maximum productivity. Companies that enter a new market must be prepared to recruit and train individuals before they can begin to sell and produce their products.

As there are no new markets, any encroachment on market share is aggressively countered. Historically, when a turf war has taken place the incumbents have generally won, as they have built long-standing trust with their customers and have the brand equity to withstand any short-term pricing incentives a competitor may offer. A relationship of trust is built with customers over years of accurate information being available. The need for precision at each stage of production is imperative because once a book is published the information cannot be changed for one year. The incumbents' capacity to challenge a new entrant in the past has been

their ability to anticipate the customers' needs and fulfill them accurately. Complacency in assuming customer satisfaction in the eastern markets has left YPG vulnerable and SuperPages has taken advantage of this.

With a narrow focus on product line, the major players have built economies of scale in every stage of production allowing them to be low cost providers. Once economies of scale are achieved, it requires nominal incremental cost to add new directories. Up to one-third of a company's expense budget is printing and distribution, resulting in this portion of the business requiring careful management. The magnitude of the relationship between the printing companies and the directory company brings advantages in favourable pricing, customization, and first priority in printing schedules. These are difficult to duplicate for a new entrant.

The threat of entry to the established companies comes not from the traditional print side but rather from the online directory side. As technology evolves and the ability to access information becomes more readily available, this could be an area of vulnerability for the current directories in Canada. Both major players have entered the online market in an effort to mitigate any loss to this alternate delivery channel.

### ***2.2.2 Bargaining Power of Suppliers***

The phone directory industry is an industry that requires very few but large suppliers however, the co-dependency nature of their relationship result in these suppliers having low to moderate bargaining power. The single highest expenditure for the company apart from payroll is print and distribution process of the directories and the companies contracted have very little bargaining power due to the magnitude of business derived from directory companies. The printing of the phone book involves two large suppliers, the paper mills and the printer. SuperPages is a significant customer for both. The printing schedule is set one year in advance, paper contracts are committed to at the time the schedules are set with ninety percent of the paper supply contracted. The remaining ten percent of paper supplies are ordered on the spot market. Thirty days ahead of printing is the last day for any changes in page count for a directory. The document of specifications for the paper is approximately thirty pages thick, containing a level of detail right down to how many roll breaks per hundred, the amount of moisture in the paper, and the paper thickness. Paper has a limited shelf life so it must be manufactured and used within sixty days or it is not usable for the directories. The paper companies are very good at managing supply but that can change with an unexpected increase in demand. The paper mills bargaining power varies with demand and the supply in the market.

Quebecor is the largest Directory printer in the world. In Canada, other companies would like to compete for the directories business but are unable to process the volume of work required. The printer has significant ability to block entry into the directory business by requesting funds up front before they will enter into a contract to publish a directory. The magnitude of investment can be considerable. For example, to manufacture and distribute a book the size of the Montreal directory would require about five and one half million dollars up front. Two and one half million would be needed for the printing and manufacturing of the book and three million in paper cost. SuperPages publishes 122 directories in Canada annually making them a significant customer for Quebecor.

PDC and DDA are the two distributors for Directories in Canada and SuperPages deal with both. Until recently, PDC was the only Canadian distributor large enough to handle the SuperPages contract and this put the business at some risk. With the entry of DDA there is more assurance of a competitive environment. Verizon Information Services Inc., SuperPages parent company, is about twenty percent of overall volume for distribution in North America so the risk is minimal, as distributors want to keep the company satisfied.

Suppliers want the business so the distributors understand there is a threshold if they overestimate on cost. But the margins are so fine the supplier could go out of business if they agree to take work at too fine a margin. This would put the publishing schedule at risk, as there are only six distributors in North America, all of which are private companies. Therefore the relationship between the distributors and SuperPages could be classified as co-dependent.

Many types of transportation are used in publishing and distributing directories including trucking, railroad, and warehousing to get the paper to the printer and the books to the distributor.

The second major categories of suppliers are the firms that supply the software for the company, both the Enterprise Resource Platform systems and the graphics systems. Again, these firms do not have high bargaining power as their products are specialized for the directory industry. Due to the customized nature of the systems, if the software becomes too expensive the companies always have the alternative to build their own or move to another vendor's product.

### ***2.2.3 Bargaining Power of Customers***

There are two types of customers in this industry, Advertisers, and the Telco's, none of which have significant bargaining power. Consumers are not paying customers but have significant influence on the Advertisers.

Directory companies distribute their product directly to the consumer. Consumers are the end users who receive and use the phone books to locate businesses when they are ready to make a purchase. High usage of the product makes it more attractive to small and medium size business to purchase advertising in as they increase the reach of their advertising dollar. Consumers have little ability to directly influence the price or product in the directory industry as they do not pay for the product, they are high number, and lack of concentration. Their power is in choosing another book, which diminishes the attractiveness of that directory for advertisers, as usage is a key marketing tool in establishing rates for advertising.

One small sub-group of customers are the businesses that purchase multiple directories for use in their businesses. These businesses provide a very small percentage of revenue for directory companies and, again, they have very little influence.

Advertisers are the customers that purchase advertising in the white and yellow pages. They choose to advertise in directories as a cost effective manner of achieving reach at a reasonable cost. Historically there has been an absence of serious competition in any given market. Therefore advertisers have not had significant ability to affect the pricing or product due to the advertisers lack of options, the large numbers of available advertisers, and the lack of buyer concentration in any one area. As competition is entering the Canadian market the power of advertisers is increasing. As the dominant competitors enter the same market this could increase the power of the advertisers, as they will now have a viable choice for their advertising dollar.

Telco's are the final group of customers as they pay for advertising and also compensate the directory companies to publish the white pages.

Although this is changing there are very few competitors, if any, in many markets, particularly in western Canada for customers to choose from. YPG tried unsuccessfully to enter the western markets in the late nineties and withdrew after two unsuccessful years. In eastern Canada this is changing as SuperPages has entered the major cities and since 2001 has garnered up to thirty percent of the market share in some books already. In markets where there is an absence of competition, this creates high switching cost for the advertisers and leaves the consumers with no alternatives, as there are no direct substitutes for directories in a printed format or reliable substitutes for the online directory in many markets. However, in markets where competition is increasing, the advertisers are becoming increasingly more sophisticated about their advertising options and more aware of their power to influence the product offering of the directory companies.

#### ***2.2.4 Threat of Substitute Products/Services***

The threat of substitutes is high as there are many competing options for advertisers to spend their advertising budget on along with the imminent ability of technology to replace the need for a print directory. An alternative delivery channel to the traditional print directory is the online directory. Once technology can identify businesses by geographical location and type, as well as provide the address and phone number of the business a consumer requires, the directory business, as we know it today will be redundant. One of the key questions facing the industry today is how technology will impact the sustainability of the industry.

Since the advent of the Internet, there has been rampant speculation that print phone books are redundant but the reality to date has not born this out. People do not always have access to a computer, or access when they need it. Research has found that, at home, people overwhelmingly prefer a print phone directory. In the office, this trend is changing as most people have more ready access to online services. The impact of Voice Over Internet Protocol (VOIP) has yet to be determined, as has the impact of the portability of phone numbers on assignment and scoping of a canvas. The advent of online directories has brought a new level of technical sophistication to the directory business and has required the companies to recruit staff and train existing staff on a new delivery channel.

Any medium that an advertiser chooses for their advertising dollar is a threat. The amount spent on advertising in general increases and decreases with the economy. The following relates to the US markets as the exact Canadian data is not available, but the advertising weighting between mediums is considered to be very similar. Newspapers and direct mail are the largest competitors for advertising dollars amounting to 46.4 and 49 billion dollars respectively, with directory advertising being about one third of either of these media forms at 14.9 billion dollars in 2003.

Television is the next highest spending area at 43.3 billion dollars. Television is not generally considered a substitute product but it is an alternative opportunity for spending advertising dollars. Magazines represent 11.5 billion dollars in advertising but this is considered creative advertising versus directive advertising, so again it is not really a direct competitor. Creative advertising captures your interest when you are not looking for something specific, directive advertising is situated for consumers who are looking for specific information. An advertiser will choose directory advertising as their conduit to customers either exclusively or as part of a much larger advertising program to increase their reach to customers cost effectively.

The greatest threat of substitute products currently comes from the Internet and new technology. Internet advertising revenue currently is 5.5 billion dollars but the potential is there for significant increases. New voice activated technology and SMART homes could also prove to be formidable competitors in the future. A new entrant that has the ability to mobilize a capable sales force, forge a relationship with customers, provide the consumer with a new technology that is easy to use and that will aid them in finding the information they require, could significantly erode the Internet market. The directory companies are addressing this threat by entering the online advertising business aggressively through partnership agreements.

### **2.3 Competitive Analysis**

The rivalry among existing competitors in this industry is intense. There are very few secrets, as any new plans for a market must be registered with a central body, the Yellow Pages Integrated Media Association (YPIMA). This creates advance warning and open turf war when a new entrant is coming into a market.

Certified Marketing Representatives (CMR) is an independent sales force that manages the advertising programs, including phone directory advertising, of large national companies. They sell into all directory companies' books and have all of the latest product information available so there is a very small window of opportunity with the introduction of new products. Once the information is released to the CMR it becomes public knowledge to competitors.

The competitors differentiate their products based on presentation of information, ease of use, value added features, and volume of content contained in the directories. All regions of the country have been penetrated for the print product so growth comes from new advertisers in existing markets and taking market share from competition with new books in competitors markets. The focus has turned to new markets as the incumbents start to venture into expansion markets as the independent. This temporarily increases the overall size of the market as customers purchase advertising in both directories but falls to a more consistent level as the customer decides on how to divide up their advertising dollar.

Switching costs are declining as competition enters new markets. When the customer decides on an advertising program in the print product they cannot change that program for one year until the next phone book is published. With the online directory, new advertising can be added, changes can be made, and errors corrected to the advertising quite quickly, and it is much more flexible. Online directories are proving to be a new source of business as advertisers are opting to maintain their print programs and take online advertising in addition to it.

Success in this industry comes from the relationship established over time and the trust of the advertiser that the product will be the directory of choice by consumers for many years to come. There are high exit costs for a company to leave a market due to the irreparable damage done to the brand name. Once a directory publisher has left a market it would be very difficult for them to re-enter the same area, as advertisers would be extremely wary of receiving value for their advertising dollar. In the incumbent markets the CRTC will not allow the directory publisher selectivity in exiting unprofitable markets so the company would have to withdraw as the incumbent. This would significantly compromise brand equity. Where competitors have come into a market for a year or two and then left, they have not had a second chance to re-enter the same market.

The directory industry for incumbent directory companies with long established brand names in the marketplace is an extremely attractive industry. The revenue streams are well established and their brands are household names in their established markets. Economies of scale have been achieved ensuring they are low cost producers. The cost to create an equal level of brand awareness and the capital reserves required to establish a new business create an effective barrier to a new entrant. Customers and suppliers have a relatively little power to directly influence the relationship. There are few competitors in the market but they are becoming increasingly aggressive.

Once the operational side of manufacturing, print, and distribution processes are well established the cost/revenue relationship of adding additional directories is no longer a linear relationship. The incremental cost of producing another book is relatively small in comparison to the revenue opportunities. The major companies in this industry have been refining the process for close to a century and have well-developed processes and procedures in place for each stage of the process. For these established companies this has been a very lucrative and attractive business. As two dominant players in the directory begin to compete in each other's market the distinguishing advantage will be in their products and marketing strategies, and the ability to sustain a cost advantage over the competitor will become the overriding factor in who defines the Canadian directory business in the future.

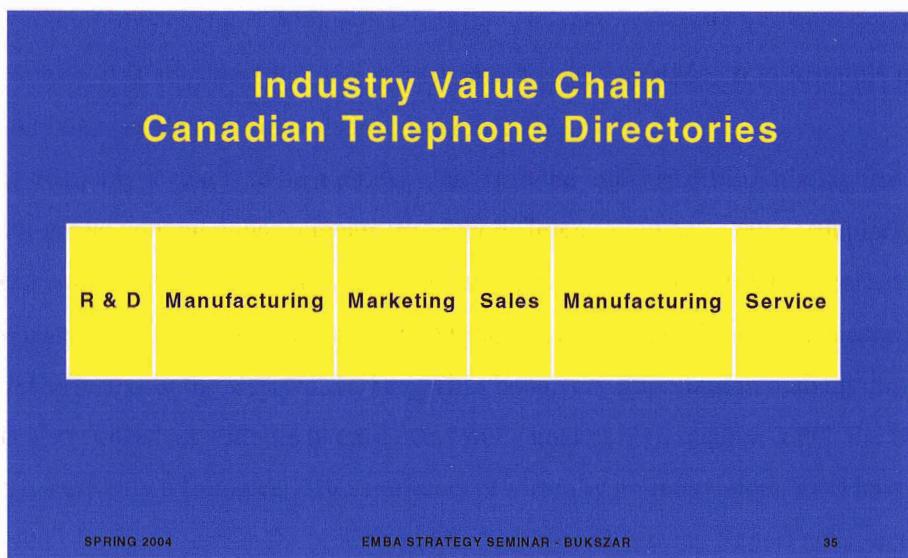
## **2.4                  Value Chain Analysis**

The generic activities that occur in order to add value in the production of a telephone directory are common to all businesses. It is the effective execution of these activities that differentiate the competitors. Telephone directories or yellow pages is a print and electronic

medium that can build an advertiser's business and strengthen a brand at the critical moment when consumers are ready to buy. Research has demonstrated that eighty-nine percent of yellow pages users will make a purchase after using the directory. Combine that information with a 14-1 return on investment and the fact that the yellow pages user spend an average of twenty-five percent more than the average consumer, clearly indicates yellow pages are an important component of a business' marketing mix.

The following figure, adapted from Bukszar (2004), shows the Value Chain for the Canadian telephone directory business. The business is, in fact, quite a simple model and the figure could be applied to almost any directory worldwide. Each segment in the Value Chain will be evaluated for its contribution to a competitive advantage.

*Figure 3: Industry Value Chain*



#### **2.4.1 R&D**

R&D Expenses generally make up a relatively small percentage of the overall capital expenditures but is an area that provides SuperPages with a competitive advantage. Research is focused on product innovations, development of new products, as well as the new and existing markets. The company does external research through Ipsos Reid to measure usage, possession, preference, product acceptance, as well as customer satisfaction. SuperPages contracts Ipsos Reid to conduct surveys in seventy-two existing markets annually. The information is gathered one month after the directory has been distributed in a market, as historically the most reliable

statistical information is accumulated then. This takes the form of surveys or focus groups. Using a third party provides the organization with unbiased information. The marketing department also does extensive market and consumer research to ensure the products are leading edge and the right product mix at the right price is being offered in the appropriate market. This research is done through focus groups and survey information. These forms of research are done to create strategies designed to increase usage of the existing products. When opportunities for new products are identified the marketing department works closely with the sales team and business analyst on development.

While some development expenditure is required for the print product the majority of expenses is primarily around the online product. This delivery channel is still rapidly evolving and relatively new to the directory business. Back end processes continue to be developed to ensure customer's needs are met. An example of this would be the ability for advertisers to go onto the company's website and create their own online ad. Products and sales tools are also being designed to support this channel. Although the online channel represents less than five percent of the total revenues, it is considered a large growth area for the company. It is currently the number one online directory in Canada since its inception in 2001.

The company's goal is to be a product leader in the industry differentiating itself through both innovation and content enhancements. Product differentiation has been particularly important in the eastern expansion markets where the Yellow Pages have a strong hold on market share. The advertisers have seen the innovations in the SuperPages products and have enthusiastically purchased advertising. In the western markets it has been very important in maintaining customer loyalty. It is also consistent with the overall company's goal of high quality. YPG, the largest competitor, is currently a follower. After ten years of virtually no innovation, YPG have redesigned their books to mirror the products in SuperPages, following SuperPages successful entry into the YPG market.

SuperPages understood the importance of undertaking primary and secondary research prior to entering a new market from watching many businesses coming into their market and failing. This is an area of research and development that has given SuperPages a competitive edge in moving into an expansion market. Primary research is done through studies with the end users and advertisers to determine if the advertisers and consumers would be interested in seeing a new book enter a market and test their product preferences. Secondary research is done thoroughly to establish the economic outlook in the area, investigate who the competitors are, and project the amount of revenue estimated in the new market. This careful research, coupled with the capability to implement changes in the product and markets to respond to customer needs, is a strength for

SuperPages and is changing the primary users preference in the new markets SuperPages has entered.

#### ***2.4.2 Manufacturing***

Manufacturing is a key component in SuperPages ability to respond effectively to the market needs and achieve a low cost strategy. To be efficient, economies of scale and closely monitored cycle times must be achieved at each step in the manufacturing of the directory. High quality is also achieved in the manufacturing of the product in the accuracy achieved at each step. Historically the operations portion of the business has been a largely manual process, with paper being presented at each step in the production and keyed into the system, but over the last few years SuperPages has undertaken to automate the process from first point of contact through to customer service.

The production cycle begins when the Listing Services Department receives and enters the listings into the system. This initial step adds value to the phone books through employees validating the addresses, adding postal codes, ensuring every address is accurate and complete. They add new listings to the correct heading and add and delete headings as industries change.

System challenges that will be discussed in detail in section 3.4.3 have made the validation of accurate information a very important part of the process. When the new system was implemented and the data converted from the old system into the new one, the listings information was corrupted. Telephone numbers, addresses, and company names were not properly aligned which immediately raised the importance of the validation process in listing services to a new level. To understand the magnitude of the problem, not only were listings incorrect but also several thousand listings were being identified as heading unknown. This meant these accounts if left untreated would not form part of the customer base for sales and the numbers would not be printed in the directories, which would compromise the goal of complete and accurate information. The system issues needed to be corrected immediately, but the data needed to be carefully screened to ensure it was accurate prior to it going any further in the process, or the errors created would have created a competitive disadvantage.

Listing is followed by sales operations that analyse the data from the listing information and divide it up by sales channel, sales unit, and sales rep. This area determines how much work needs to be processed by certain dates, tracks the work processed, and estimates how much remains to be completed in a given canvas. It also produces Management Information Reports that help sales managers closely monitor the progress of their teams. This is a competitive advantage

for SuperPages in that it allows maximum time in the market that is focused on meeting customers' needs. The lengthened selling time also allows the company to respond to the customers' advertising needs and address all concerns before the book is closed for selling. This monitoring of the canvas also ensures work is being dispersed on even intervals allowing the post sales operations to handle the work.

Once Sales has completed the contracts the work moves to post-sales operations. This has been an area of real challenge with the system problems. The business service reps have faced up to a month backlog in keying in the information following the conversion to the new system. This caused a delay in getting work to the graphics department, delayed books meeting their production schedule, and created significant errors. In order to complete all the work necessary to publish a number of books in 2003, one hundred and fifty temporary employees were hired at one point in time. This involved hiring the employees, creating workspaces for them, as well as training them quickly to get the work accomplished. This was a massive feat. The operations group also created a number of workarounds to complete the work on time and this created subsequent challenges. The operational challenges, errors in the books, and the loss of efficiency has been very hard on employee satisfaction and morale at all levels of the company. The employees have always prided themselves on producing an error free product.

Once the work has been keyed it goes to the graphics department to have the ads designed. The graphics department also creates the directory covers. These covers are so well done they have won international awards for best design. This department creates all visuals for the front of the directories such as city scene, tabs, and feature sections. Graphics needs to have sufficient time to complete the advertising and have the customer approve the work. Revenue leakage occurs if the advertising is printed without the customer's authorization and the customer contests the information presented. This is one of the largest areas of refunds for a directory. Once the ads have been designed the contract returns to the Business Services area. The Business Services Representatives ensure the contracts are all complete and all appropriate signatures are in place. The work then goes to pagination for compiling prior to sending to the printer.

Production schedules are strictly adhered to, as a one week delay in a three month production schedule can cost as much as \$100,000.00. Normally the careful scheduling of work moving through the system to achieve maximum time in the market is a strength for SuperPages. Since the new system has been implemented, the delays caused in production, the errors, and the need for large numbers of temporary staff has put SuperPages at a disadvantage in this area. It will need to be addressed to provide a platform for the continued growth SuperPages has planned over the coming five years.

Printing and distribution are approximately one third of the expenditure for a directory. This function is located in the marketing department, which is a competitive advantage for SuperPages for two reasons. The first is the distribution strategy directly supports the marketing research. The more hands the company can get the directory into, the greater reach is achieved for the advertisers. SuperPages carefully crafts its distribution strategy in terms of regions, businesses, and residence included the target scoping area. The second advantage is distribution is vigilantly followed with surveys to ensure usage and the results are shared to achieve a common goal.

#### **2.4.3 *Marketing***

The Marketing department is responsible for creating the products, product mix, promotion, and pricing for each canvas. They then work closely with the sales channel through the canvas providing research on economic data, industry trends, and consumer information.

The value of effective marketing is to build comprehensive information into the total amount of advertising content in a book, as this is an important indication of how widely the product will be used by the consumer because usage is what drives the advertising dollar. In order to be effective, the Marketing team must have an excellent understanding of the target audience. This would include, where consumers shop, why they use yellow pages, how they make their buying decisions, and how they prefer the information presented. They then use this information to educate the advertisers on the advantages they will realize incorporating yellow pages into their overall businesses marketing strategy.

The value proposition is provided to both the consumer and the advertiser when the content in a directory is what the customer is seeking, presented in an appealing, accurate fashion, and the book is where it needs to be when a buyer is ready to make a purchase. When deciding on which products, pricing, and promotions will be used in a market, an internal data analysis is performed and external market researchers such as Ipsos Reid are used. Community pages, maps, postal codes, tabs, menus, and coupons all form a part of the value added back to consumers. The Marketing team are always scanning the external environment for new and innovative ways of serving the customer, which enables them to be first to market with the latest products. By being close to the customer, the company can respond to their feedback, put a program together, and be to the market with it before the competition can respond.

A good example of a new and innovative product is the GO Pages, which has been extremely well received. This is a miniature phone book that is designed for use in the car. Postal codes, maps, menus, coupons, and the City Scene are other features that differentiate SuperPages

directories from the competitor. The scoping of the book is an area at which the SuperPages marketing team excels. Research is conducted to determine where customers shop in relation to where they live. This information is tested with advertisers to see into which markets they are selling. The data is used to design a distribution program to achieve the target reach for each directory.

The print and distribution area is commonly found in the operations side of the directory business due to its production connotation. SuperPages has made the strategic decision to have this distribution channel as part of marketing. This has proven to be a competitive advantage for the company. When, where, and how the books are distributed, and consumers surveyed are all key marketing initiatives. By having this area as part of marketing, there is a synergy created as everything is kept in the one area from conception to final product. Other companies experience a disruption as the strategy developed in marketing is handed off to a production area for implementation.

Formal training is taken seriously throughout the organization. It takes approximately one year, or a business cycle, for an employee to be fully productive in a marketing position. The employees need to see one full cycle of books being produced before they have a strong understanding of the product. The training program for a marketing person would be one week of in-class sales training, on the road experience with a sales person, cross-function job shadowing and shadowing with a peer. This takes approximately three months. This on the job training is intended to provide employees with an appreciation of the product, the market, the industry, and the customer. This focus allows the marketing department to take advantage of the strategies outlined above. As SuperPages entered the Eastern markets this training was a competitive advantage but, over the course of the past two years of rapid growth, the depth of knowledge has been depleted, as the resources in the organization for training have been insufficient or unavailable to new employees as the focus has been on growth and sales at all costs.

The marketing department is also responsible for the external branding of the SuperPages product. In the western markets SuperPages, the exclusive producers of TELUS pages, is a well-developed product and brand. The marketing resources are spent on ensuring a superior product quality and innovation on differentiating features. This has resulted in more than ninety percent market share in both BC and Alberta. To maintain this level of market share the company continues to focus on stronger product offers, and service to drive demand for SuperPages.

In the eastern markets there is an external advertising campaign focusing on creating brand awareness. There are considerable financial resources being expended to brand the product so customers will ask for SuperPages by name. The company is targeting offers to meet relevant

advertisers' needs in an effort to be regarded as the best value in the market. The company is using key promotional opportunities in local sports and education events to integrate themselves at a grassroots level into the localized business community.

Yellow Pages have significant brand recognition with the "walking fingers". In the absence of this well-known trademark, SuperPages has needed to develop their own brand awareness campaign and a critical decision in this strategy was to call the online and the print product by the same name. This has allowed early adoption and quick penetration of the online product and a successful entry into these markets.

#### **2.4.4 Sales**

Superpages sales strategy is a competitive advantage over Yellow Pages as demonstrated by YPG's failure to establish a western presence in the late 90s and recently allowed SuperPages to gain a significant share in the Yellow Pages dominant eastern market. SuperPages has diligently followed a two-step process in the sale. The first meeting with the customer is to establish the customer's advertising needs. Then the sales person designs a program and, in the second step of the sale, presents it to the customer and closes the sale. YPG attempts a needs assessment and close in one visit. This gives SuperPages an advantage in establishing customer relationships. Until quite recently, YPG sales strategy was almost exclusively telephone sales for initial contact and follow-up. Realizing the threat to their market, they have now increased face-to-face contact with their customers to try and establish a better rapport. In the absence of a viable competitor, they had not appreciated or understood the risk to their business of not developing a strong customer relationship.

There are two sales channels, Local Sales and National Sales. The sales force, both telephone and external representatives for SuperPages, is primarily dedicated to Local Sales. These are small to medium sized companies whose business is conducted within one province. National Sales, large companies with multiple locations across the country, are handled both internally and through CMR's.

There are two delivery channels for advertising in the yellow pages, Internet and Print directories. Internet yellow pages provide directional information for buyers about where to purchase goods and services, who to purchase from, telephone numbers and address information, as well as maps, and links to advertisers' web sites. These can be found by going directly to the web sites like Superpages.ca and YellowPages.com or through partnership agreements with search engines such as MSN, Infospace and others. The advantages are unlike that of news and

entertainment sites where people go for information, as no one goes to the Internet yellow pages just to browse. They go for a specific type of business, and they go to buy. The statistics show sixty-two percent of viewers make a purchase. Directory companies offer value to the advertiser through bundling their offerings.

The print directories, although very similar in benefits to the online directories, offer both directional and creative advertising. When a business or advertiser decides to place an ad, the appropriate print and/or online directory and category are selected. Ad size, placement, and positioning are determined, copy and design are created, and recommendations on how a customer can brand their own products or services are offered.

The sales teams of the two major competitors in the Canadian market are generally well trained to present the product features and benefits to their customer and work with the operations team to provide high quality advertising.

SuperPages has a penetration strategy to, sell on value at a competitive price to as many business listings as possible, to build content in the books. They also have goals to sell online advertising to a certain percentage of print customers a year. Sales, Marketing, and Training work together to ensure SuperPages have a product the advertisers want to buy, consumers want to use, the sales team can sell, and one they are first to the market with it. What makes the sales force successful is an overall focus on key areas that include the value of the product, canvas management, education of the employees, and appreciation of the relationship with the customer.

Canvas management or sales management is a tightly controlled process in the company. From the onset of a book, marketing and sales have determined how much work must be closed and how much revenue must be grown everyday. Daily, Division Sales Managers will verify how many accounts have been worked for their teams, which products have been sold, and how many advertisers are decreasing their advertising programs. Checkpoint meetings with the President, Vice President of Sales and Marketing, all sales and marketing Managers nationally, are held every two weeks to review each book in canvas and each product in the book. The first consideration is whether the book is on track to meet its revenue target and then each product is reviewed for modifications. This affords the company the opportunity to respond to market challenges proactively and put programs in place to react quickly. The coordination of sales identifying opportunities based on consumer feedback, marketing creating a program, and the training team educating sales employees about a new product in an efficient manner is a key success factor of the company.

Sales training is seven weeks of intensive training in which the employees gain an overview of the organization, the product, the sales process and the effective use of sales

collateral. The training begins with an orientation to the strategic direction and the value proposition the company offers the customer, followed by extensive in-class training about the product and sales process. The class then has one week in the field to observe the things they have learned in the classroom being put into practice. The trainees then return to the classroom for a week of further training and role-plays. In addition they return for two more weeks in the field working accounts of their own with a dedicated coach. This broad encompassing training is provided to ensure that the brand promise is realized with the consumer and advertiser alike.

Superpages takes a grassroots approach to community work to reinforce brand awareness and lay the groundwork for the sales force to enter the market as a recognized local entity. The strategy of community acceptance is manifested in a number of ways. In select markets throughout the country Regional Account Managers are permanently placed in a community with a sixty percent sales and forty percent marketing focus. The company's intent is that these individuals will become active members of the business community year-round, raising the awareness in the communities to SuperPages brand. The covers of the phone books have won international awards and are always reflective of the communities for which they are published. SuperPages is also an energetic fundraiser and national sponsor for Juvenile Diabetes Research Foundation. Additionally, the employees fundraise for the Children's hospital in each region through their social committees. All of this is done in an effort to position the company as a good corporate citizen and contributor to local communities and create a barrier of entry to competitors due to the established local presence.

#### ***2.4.5 Customer Service***

Superpages is positioning itself to gain a competitive advantage in customer service through the implementation of a fully automated customer platform. This allows an efficient first contact with the client on any concern and includes a document imaging system which allows electronic transfer of contracts to customers in cases of dispute or confusion

Once a directory has been produced and distributed the company needs to ensure there is sufficient customer service. Customer service is pivotal in client retention. Call centers, customer relations, and billings all form a part of this after sales servicing. This is imperative to ensure satisfied customers and a long-term relationship with advertisers.

Once the books have been published and distributed, the Call Centre becomes very busy. Any concerns regarding the appearance or information included in an ad would first go through this area. The Call Centre also manages requests by consumers to purchase phone directories in

areas outside of their local directory, and inquiries for missed directories. This department needs to have an excellent understanding of the product and how each area of the country differs in their product offering. A new phone centre and the document imaging system have recently been put in place to assist in establishing a virtual call centre. This will lead to efficiencies of scale once the department is fully operational as there will no longer be the need for Call Centers in each major location.

When a customer concern is more serious and will involve expertise or follow up time, the call is referred to the customer relations' area. The Customer Relations Agents are long tenured, experienced employees, with skill in dealing with irate customers. Their primary role is retention of customers, which can be a challenge in the directory business, because when an error occurs the impact on a business is for the year the directory is in circulation. Employees in this area typically have more than twenty years of experience and have worked in many areas of the company. These long tenured knowledgeable staff members save the organization large sums of money every year in their ability to resolve customer issues. As systems change and business expands it is imperative to keep these people abreast of all changes and have them onboard to deal with new products and potential oversights. Failure to do so could lead to retention problems that will erode the competitive advantage of these skilled employees.

Billing in the incumbent markets is outsourced to the Telco's who include directory charges in their monthly statement. This is an advantage to the directory company in that if the bill goes unpaid the business has the perception they are putting their landline at risk. In the independent markets Superpages is responsible for their own billing, credit, and collections. It is so important that the listings are set up correctly in the system to ensure all listings for a company are billed to the right account. This is an area that would be outsourced entirely if the assurance could be gained for the timely collection of all revenue.

#### ***2.4.6 Key Success Factors***

The key success factors in this industry are a strong brand name, a differentiated, high quality product, an understanding of what the consumers are looking for, and the ability to respond to the consumers needs. Couple this with a strong relationship with the advertisers, operational efficiency including economies of scale, and efficient systems with well-aligned processes. In order to accomplish this and be a market leader you must have a clearly articulated, well-communicated vision, and strategic objectives with a cohesive, aligned corporate culture, as well as a knowledgeable motivated workforce. These are interwoven pieces of a puzzle and

without all factors fitting tightly together, the organization will not be able to consistently achieve a high quality, low cost strategy.

SuperPages must maintain systems to continuously scan the marketplace. By staying attuned to changing consumer trends to then develop new and innovative products, they can quickly respond to consumer needs. This attention to the consumer has allowed them to maintain the position of product leader while adding value and content to the books. This has ensured the consumer's preference for SuperPages' directory and the advertisers receiving value for their advertising dollar. SuperPages' marketing team has done the research and developed programs to respond to consumers needs with incredible speed in the past. While this has been identified as a strength, it has also presented some challenges. The identification of new products has been very well done as evidenced by the advertisers' acceptance of the products. However, the depleted depth of understanding of the business and system capabilities has caused challenges in not always being able to produce the product before releasing it to the sales channels. In the urgency to be first to market there have been occasions where the product must be withdrawn after the sales have occurred due to the inability to produce the product. This compromises the credibility of the company. It also alerts the competitor to a viable new product, as the details would have been released to the CMR channel for presentation to their customers.

The focus on the relationship with the advertiser at every point of contact is a key success factor in creating an effective entry barrier in the western incumbent markets and allowing a foothold in the eastern markets. SuperPages has always prided itself on the highest quality of interactions with its customers achieved through the excellence of the employees. The focus on growth and profitability has compromised this to some degree in the past few years. As the employee base has grown so quickly at a time when the company's primary goal has been top line revenue, the importance of the long-term customer relationship has not always been well recognized and understood. The biggest risk for the incumbent phone directories is complacency, losing sight of evolving customer needs, and taking the customer's continued loyalty for granted. If the relationship with the advertiser is damaged through inattention, inaccurate information, or poorly constructed product, the opportunity for the competition to enter a market is exposed.

In order to be low cost producers, economies of scale must be achieved at each step of the production of the directory. A directory business reaches optimum productivity when they can add additional directories without incremental costs. The infrastructure of the companies, customer service, billing, IT, human resources, and marketing, must be in place, whether they are producing one directory or a hundred. Operational efficiency occurs when resources are utilized to their maximum capacity. In order to achieve this, production, or canvas schedules, must be established,

monitored, and tightly adhered to by all functional areas. The amount of time it takes to handle a piece of work at each step is carefully crafted and production schedules are set. If the work is not processed on schedule, resources lie idle. Conversely, if more work than the employees are capable of handling comes through at one time, there is not sufficient time to fully involve the customer and errors can occur. The management of the production schedule continues to be an area of strength for SuperPages. The challenges have arisen through the implementation of a system prior to having the processes defined and realigned to interface with it. The ability of the operations side of the organization to process the volume of work, and do it efficiently and cost effectively, will ultimately define whether the company can achieve the established growth targets.

After a hundred years of being at people's fingertips, the two major directories have firmly established brand equity in their incumbent markets, the TELUS Pages and the Yellow Pages. This is a key success factor for the two major Canadian producers, as customers recognize, use, and trust their respective product, which grants them greater reach in the market. This brand recognition makes it very difficult for a competitor to enter the market.

The single greatest asset in this industry is a knowledgeable, motivated workforce. Taking six to twelve months for an employee to achieve maximum productivity, selection and retention of the right individuals become important in protecting the investment in training. Most knowledge in this industry has historically been unwritten. In the past, there have always been multiple people that understood any given job or process and were willing to help, providing a depth and breadth of knowledge to any given area of the company. As the manner in which business is conducted with technological advances, a mobile educated workforce, and the automation of processes, this tacit knowledge is slowly being replaced by documented activities out of necessity. Large numbers of employees are being trained in new areas of the company, online in particular, and that information is being developed and recorded for the next training session to ensure consistency and provide the resources to make knowledgeable and informed decisions.

For an industry in transition, and a company experiencing explosive growth, a well-communicated Vision and articulated corporate culture are key success factors. The strength of human capital, and the ability of the company to align these employees toward a common goal, will determine the success of SuperPages. The employees must understand the values important to the organization, be attuned to changes in the industry, and aligned to the direction of the company and its goals in order to deliver on the brand promise made to the customers. Evolving the existing regional corporate cultures into a single new united culture is a challenge for SuperPages. Senior management need to encourage a vision the employees will want to strive for,

one that will provide the motivation to ensure the quality of product, as the employees navigate through a great deal of uncertainty adjusting to the automating of processes and systems. This change in technology and way of processing work, coupled with the huge cultural shift of disenfranchising themselves from the Telco's bureaucratic decision making practices, while responding in some cases for the first time to competitive forces, or of being the competitor book in a new market, presents a significant challenge for the organization and the employees. If SuperPages does this well and are able to retain high satisfaction levels from both their customers and employees, they will be the ultimate winners in the Canadian marketplace.

### **3 INTERNAL ANALYSIS**

#### **3.1 Overview**

In 1997 Dominion Information Services won the Canada Award of Excellence for being an exceptionally well-run company following a Balanced Scorecard approach to doing business. The company measured its success on Profitability, Employee Excellence, Operational Excellence, and Customer Satisfaction. Quality was emphasised and employees were rewarded and recognized for working cross functionally to achieve efficiencies in processes and procedures. The company was focused internally on service and production in the pursuit of excellence.

In July 2001, the manner in which the company operated changed dramatically. When Dominion Information Services acquired TAS it purchased a company already in transition. TAS was formed in 1995 through the merger of AGT and EdTel and the acquisition of an independent phone book, Locator, in Ontario. The original Telco's were Bureaucratic in their approach to doing business. Complicating matters, Alberta employees were unionized workers including the Sales Teams. Subsequent to the acquisition of TAS, the need to achieve high growth rates, and the focus on becoming a national company, the internal focus previously held was no longer viable. The company needed to produce double-digit returns in order to repay VIS the acquisition cost of TAS as well as fund the expansion into the eastern markets.

In conjunction with the acquisition, a new president arrived from Dallas with the mandate of integrating the companies and achieving the revenue targets as indicated. This brought a major cultural shift to the company by introducing and implementing an external focus on sales and marketing with a strong bias to the profitability quadrant of the Balanced Scorecard. This was executed with speed to address an opportunity in the eastern markets for a serious competitor to the incumbent book.

YPG was sold and the new owners were converting the company into an Income Trust fund and their focus appeared to have turned internal while they transitioned their business. SuperPages intended to be well established in the market before YPG realized what a strong competitor they were. This strategy has been born out in the 30% market share in selected books achieved to date. The sales teams were successful beyond any targets set for them. This success has come at a significant cost however, in that the operational infrastructure is insufficient to support the incredible demand placed on it. The culture of the organization has not been aligned firmly behind the new strategic direction, the leadership talent is underdeveloped, and the bench strength has been stretched to a breaking point.

The president accepted the Canadian position from Verizon with a strong directory background in Finance and Sales. He had a massive undertaking to accomplish in a short period of time. The urgency to achieve increased top line revenues and efficiencies from the acquisition created a numbers driven focus never seen before by the previous TAS and Dominion employees. The culture of these organizations were ill equipped to handle the change and many of the employees resisted to the point that some had no option but to leave, by their own volition, or the companies choice, recognizing these employees would not be able to adjust to the fast paced, externally focused, ever changing dynamics of the new organization.

The president worked under serious time constraints to accomplish these new goals. Whenever he met a challenge in implementing his mandate, he would expediently enlist colleagues from the United States that he had worked with in the past to facilitate the implementation of his plans, without carefully examining his Canadian talent. These recruits were equally unaware of the strong cultural dynamics of the Canadian company. Rather than easing the implementation of this new vision and have the ability to aid in the creation of a new strong positive culture, it had almost the opposite effect of creating resistance and in some cases undermining of the ex pats and creating silos within the business.

Functions became so focused on surviving and keeping up to the demands of the organization that the partnership and teamwork that contributed to the companies success in the past was no longer evident at the time in it is evolution that it was the most critical.

Prior to the acquisition of TAS, Dominion was in the process of transitioning the focus of its management team from, being a bureaucratic organization with managers accustomed to implementing direction, to a company of leaders. This brought with it the expectation that managers and supervisors would be responsible for, and accountable to, the results for their area, their work processes, and people, allowing for empowered decision-making in the workplace. At the time of the acquisition all managers had not yet adopted this change in approach and many of the employees were resistant to the accountability this change thrust onto them.

In the TAS environment this transition had not yet started. The organization was very bureaucratic in its decision-making process. The president controlled decisions, and employees were rewarded for carrying out directions expediently. The unionized workforce also contributed to this environment as the past history of the organization had taught managers to supervise the work in such a fashion as to avoid grievances from the union at all costs.

The operation in Rimouski was the most formal, patriarchal, and bureaucratic. The General Manager was addressed as Mr Jalbert and enormously respected in the workplace. He had been with the company since it was acquired in 1967 and ran the operation as a fully

independent company from a very paternalistic perspective. Any communication with the western Dominion was done through Mr Jalbert as all business was conducted wholly in French and under his guidance. All aspects of the business were tightly controlled and very successful.

The Ontario operation had been a recent acquisition for TAS. The former Locator book had been a very entrepreneurial organization focused on top line revenue that operated in a very independent, entrepreneurial fashion with few policies or procedures and limited focus on quality or integrity.

There was a significant adjustment period for all of these organizations as a number of things changed within months of each other. The acquisition of TAS occurred. The new president arrived with a mandate to bring all of these units together into one national company. Mr Jalbert retired and the Quebec operation was merged into the national company. Bringing these different organizations together was a massive undertaking complicated by an external focus never experienced by anyone in the organizations apart from the Ontario office. This new environment was compounded further with a new system that was defective on implementation and created errors in a product that is sold on the merits of its quality. The expectation was for the managers and supervisors to be leaders with empowered workforces, finding solutions, and implementing them as quickly as possible to allow the company to grow at an unprecedented rate. This was in direct contradiction to what they had previously been recognized for.

The focus shifted from “double-digit growth” to driving financial results at all costs. An integration team was created to align the processes and procedures. However all recommendations had to be approved by the executive team and any suggestions that would incur backend costs were delayed. The team’s recommendations in light of differing executives’ priorities quickly became a source of conflict for the executive and therefore unworkable. Within eighteen months the team was disbanded without accomplishing its mandate of nationalizing processes and procedures. The effect of disbanding the transition team early was an executive team that became functionally focused, trying to get their own area running cohesively on a national basis rather than working as partners. There was no longer a long-term strategy, common vision, or consideration for the impact of their own teams actions cross functionally. The silo effect is having far reaching consequences, as there are duplication of efforts, territorial tendencies, an inefficient structure and reduced communications between departments.

The organization has undergone a culture shock. The new system, DSMP, was introduced company wide and for the first time in seventy years the company was producing books with serious errors. Despite the challenges the focus remained on growth and increased revenue. Employees that lived by quality were being encouraged to do their best, but also to put the book

out on time. The eastern markets, used to a very entrepreneurial work life where the primary goal was to make money, also faced a culture shock being restrained by the need to follow certain policies and procedures. The independent operation in Rimouski was ill equipped to deal with the English speaking Canadian operation. There was also rapid expansion into new markets in other areas of Quebec. This brought challenges with a strong regional culture that required new reporting requirements, civil law, and all policies and procedures translated into another language. What was once perfectly aligned company has become a company in transition.

Today SuperPages is at a crossroads in its history. It has aggressively pursued a strategy of growth focused on top line revenue while still espousing the strategy of a “high-quality, low cost” producer. The company has been successful in reaching top line revenues but if it continues its single-minded pursuit of growth without concern for customers, employees, and operational capabilities, the demands of this strategy will exceed the organization’s capacity to execute without loss of quality or significant increases to costs.

The balance of the internal analysis will be structured in a Diamond E model, by Fry and Killing, (2000), used to examine the relationship between Management preferences, resources, and organization and the impact on Strategy.

## **3.2 Management Preferences**

### ***3.2.1 Decision Criteria***

In this new working environment, management needs to have the confidence and the ability to question decisions in a consultative, solution-based framework. Working in an environment of constant product and systems changes, the management team are no longer the technical experts of the past, and in some cases may never have worked in the area of their responsibility. In order to make good decisions, they need to be able to ask informed questions and be able to rely on information in consultation with subordinates and peers, both departmental and cross functional. Decisions can no longer be made in isolation as the impact in an automated environment is far reaching into other areas of the business.

Decisions are made both regionally and nationally depending on the scope of the decision to be made. Decisions that affect the company’s ability to establish uniform standards, integrated systems, with unified processes and policies, are centralized. Decisions that are regional or market specific have a high degree of autonomy such as marketing events, incentives and rewards, and tactical planning for a canvas. Decisions are starting to be made with input from the employees directly involved in the work. This is in contrast to the top down manner in which decisions were

made in the past. Some employees have thrived in the new environment and some have struggled with the responsibility of being accountable for decisions that impact the company. The more immersed employees were in the old culture the more difficult it was for them to make the transition quickly. As the company was changing quickly it needed the exemplary employees to lead the way. It put tremendous pressure on these individuals as they strove to continue to be high performers in an environment they were unfamiliar with and uncomfortable in. These once excellent employees were, in some cases, resisting the needed changes, gravitating to fellow employees in similar circumstances and creating a subculture that had a negative impact on the rapidly changing company. Over the past three years these employees have either left the company to find a culture more compatible to them or have resolved their differences with the new direction of the company.

Today employees are encouraged to be innovative and creative in how they approach problems and to embrace continuous improvement. Continuous improvement and critical thinking are core competencies that all employees are evaluated on annually. Employees that are looking at entire processes take an entrepreneurial approach, looking for new, innovative, and cost effective solutions. This process allows for a tremendous amount of autonomy in making decisions that will affect the whole company. Once the process is determined and in place it must be followed on a national basis without further room for innovation without formally reviewing. There are frameworks around identifying problems and looking for solutions that must be followed. This ability to make a decision closer to the customer is in sharp contrast to the historical way of functioning but necessary as the company operates in markets and environments completely new to them.

As the company matures in the online market, and has fully integrated processes and systems, this moderately high degree of autonomy will likely diminish as the focus returns to efficiencies created through standardization and being a low cost producer. This is already being experienced with the new operating system because when a process is changed without appropriate consideration on the downstream impact, it causes serious errors to occur. Therefore, changes that affect production now have limited autonomy. Decisions on pricing are centralized as they are designed to encourage retention and growth in advertising dollars. Rates and incentives are developed and published by the marketing department.

Decisions on the production side of the business are focused on efficiencies, and economies of scale. The look and features in all books is being standardized for ease of production, lower publishing costs, as well as capitalizing on Brand identity. Production is located in either the Burnaby or Calgary offices sharing, not only overhead such as facilities and

equipment, but also the soft resources of expertise and manpower. By centralizing the functions and decision making as much as possible, the ability to move resources as needed has become much easier and quicker to deploy.

Managers and executives approach this more decentralized decision making process with varying degrees of comfort. There still remains a strong orientation towards a bureaucratic process of implementation without appropriate questions being asked and input from front line staff, in some areas, which result in inefficiencies and errors. Employees new to the organization are readily adopting the ability to make decisions at the regional level but these same employees may feel disempowered as the need for efficiency causes decisions to be once again centralized.

### ***3.2.2 Management Capabilities***

In order to achieve the strategies as outlined, the company is going to need leaders, not managers. The need for leaders to develop and coach their teams is primary. They need to be able to manage the workflow and translate the strategic goals of the organization into a tactical implementation plan in a cost effective manner.

Many of the original SuperPages' managers had become stagnant in their approach to the business and investment in their own development. There had not been much turnover and they were reluctant to take risks or try new ideas. They were promoted based upon their technical expertise and knowledge of the business, and rewarded for the ability to effectively manage their resources. These managers find the people leadership, and responsibility of being accountable for their functions innovation and results, a difficult transition to make. They are accustomed to decisions being conveyed to them and recognized on how quickly and efficiently the actions were carried out. For them, the transformation from manager to leader is a major paradigm shift.

A newer group of managers are those who were identified, selected, and promoted based on their leadership capabilities. They have strong interpersonal skills, are adept at building relationships, have good business acumen, and are able to work in a consultative manner with their team. Typically these individuals are not only new to their position but are also new to SuperPages and the directory industry, hence the ability to translate a strategic goal into a tactical plan in an efficient and cost effective manner is a challenge. They have fresh new ideas but not a lot of experience allocating resources in this type of business. The risk with this group is they will become frustrated and battle those still resisting the cultural shift, as they don't always have a lot of experience leading people and balancing the demands of the workload. Their time management and ability to prioritize is being severely taxed. These managers need the benefit of strong

coaches themselves, ensuring these employees gain a strong knowledge of the industry, to enable good decision-making to occur.

### ***3.2.3 Managerial Predisposition***

In order to take the company forward the managers must be results oriented and comfortable making decisions, while supporting their employees to take calculated risks without fear of failure. In order to effectively drive business results, efficiently allocate resources and recognize the cost implications of their decisions, they must also possess strong business acumen. This focus on results must be tempered with a desire to exceed customer expectations, develop and retain employees and achieve operational excellence.

In the company today, the managers have a good understanding of how to drive financial results but are still struggling to make decisions when there is no clear-cut path or process in place. While the illusion of risk takers is prevalent due to the rapid expanse of the business, it is more a case of taking risks when there was no other choice rather than a calculated decision to take one.

There is a tendency for managers to not view their business in the broader sense of the business community so their perception of excellence may not be accurate when taken in a broader context. This has led to a fallback strategy of doing things “the way we always did them” rather than looking for a means to innovate when problems occur.

A universal trait of the vast majority of SuperPages’ management is a desire to see the company succeed. This prevalent attitude allows for tremendous opportunity for the company to engage the talent of their leadership team to drive the company toward common goals. In order to make sound decisions the managers need clarity in what is expected of them, the tools to make good decisions, and a constant flow of communication, to ensure they are current in the dynamic environment they find themselves.

## **3.3 Resources**

### ***3.3.1 Human***

The management of Human Resources is a critical component in the directory business. As there are very few hard assets, the primary asset of the company is their talent. Payroll is the single highest expenditure of the company annually. Highly skilled and flexible employees are needed in almost every area of the company. Even employees that do what would at times be considered entry-level positions require a high degree of expertise. The importance of learning

effects on the company's ability to realize its strategy cannot be underestimated. For the company to continue to implement the strategy of high growth and rapid expansion, they must have a depth of bench strength at all levels and in all functions of the organization.

When entering into an expansion market, where SuperPages is unable to rely on a strong branded name, it is critical for the employees to have the ability to project an image of confidence, knowledge and professionalism to clients. First impressions count in these markets. It is imperative for the company to have committed employees ready, capable, and motivated to assume more responsibility at all times.

Today, like many organizations, this is a challenge for SuperPages. Through the last few years of rapid expansion, the company has depleted the depth of knowledge at all areas of the company to accommodate the growth in new markets. As discussed earlier, many of the most capable have been promoted, and many others have made lifestyle decisions not to move or accept positions of greater responsibility. In the absence of having the ideal candidates, internal and externally hired employees who would require development to get up to speed have filled positions and circumstances have thrust them into the front line without the benefit of support from the company. This has undermined the employee's confidence in their own abilities to be leaders and hinders their ability to be effective in the positions.

In the past, people aspired to management positions in the company. As workloads increased with processes being ambiguous, adding to the stress factor, and employees see the effect on their managers, there are fewer people who desire to seek more responsible positions in the organization. So rather than having a waiting talent pool applying for vacant positions, the company must now approach employees. There has been a strong trend in the workforce to balance work/home/leisure that is at odds with a rapidly expanding company. There is also a reluctance of managers to encourage their strong employees to move on as they then lose the productivity of their best and brightest with little chance of having that person replaced with anyone with the same skill set.

SuperPages must now focus its attention on recruitment and selection, development and retention of its employees in order to increase the bench strength, concurrent with establishing a well-developed internal communication system to a point that further growth is sustainable without incurring a negative impact. Recruitment and selection of employees has been a constant challenge of hiring for immediate needs of the organization while being aware that the future needs for leadership talent was not being addressed. The company consciously staffed the organization for success on the sales front for the rapid growth and turnover seen in new markets.

The production side of the business was staffed on a crisis basis to process the volume of work being generated from a highly successful sales strategy.

The company had always put a lot of energy into developing and training employees ensuring the employees were motivated, challenged, fulfilled, and growing in their profession. In the current environment this is considered a luxury and the company is focused on bringing in people as close to being prepared to run with the job as soon as possible rather than by promoting from within and developing the people. The level of employee satisfaction with the new organization is evident in the decline in overall employee satisfaction scores from the employee surveys. This dissatisfaction has affected the commitment of the production workers and motivation on the job, which manifests itself in a reduced level of quality and higher costs. This is essentially a service industry and a positive attitude in the workforce is paramount.

The level of skill and knowledge required by the employees has been increasing, becoming more complex and, in the case of the Internet operations, requiring some skills that had never been needed before. Ironically, the company was losing experienced employees at a time an in-depth knowledge of the directory business had never been greater. An understanding of how the processes and procedures work and effect other departments, was critical as the company automated work, but many of the people that possessed this knowledge had retired or been retired. They were no longer a cultural fit for the new company of young, dynamic, energetic employees. On the operations side of the business the information had been learned on the job from a wealth of knowledge at every turn. The number of employees that have the necessary depth of knowledge in multiple areas of the company is now considerably depleted, leaving the few that remain as subject matter experts. These individuals have been stretched to their limits trying to educate large numbers of new employees while learning the new system themselves and trying to adapt the old processes to the new system.

The company can no longer rely on knowledge being learned on the job from knowledgeable colleagues. This has resulted in the work being carefully considered, documented, and a formal training process being followed in all areas of the company. This has resulted in a significant change in how employees think about the work they are doing. The employees are no longer task oriented in a highly structured organization, but process driven in a far more flexible workplace. It has been an education process for both employees and management.

Retaining motivated employees is a critical competitive advantage and ensures the benefit of the learning effect continues to be realized. In many functional areas of the company, it takes six months to one year for an employee to become fully trained and productive and considerable resources are used developing employees, so retention becomes a considerable issue. Retention

has been difficult in the past few years, as the need to hire large numbers of employees has caused the company to employ people not always well suited to the position and long tenured employees uncomfortable with the cultural shift retire or move on.

The most recent employee survey provides a rich supply of information into how employees are responding to the current business situation and the results support the need to act. The following statistics are excerpts drawn from the survey eighty percent of the employees completed.

- 43% agree sufficient effort is made to get the opinions of people who work here.
- 48% agree when asked to rate the discussion you and your supervisor have had on career plans and goals.
- 50 % agree that decisions are made at the right level.
- 52% understand the Balanced Scorecard objectives
- 53% have confidence in the decisions made by management
- 63% agree when asked how confident they are in their supervisor's ability to manage people's responsibilities.

One hundred and fifty seven focus groups were held across the country and the three reoccurring concerns were the limited understanding of the employees of the strategic vision and planning process, limited communication, and underdeveloped leadership talent. The leaders in the company concurred in focus groups that they would like the tools to improve their leadership capabilities

To say “people” are the value added component of a business is overused but in this case it is a true statement. The company’s success has been achieved by the passion the employees have for the customer and the product, innovation and creativity. As the company has become national, the transfer of knowledge has become more important and yet more difficult as the support structures are not well equipped to support the development of large numbers of employees. The effective allocation of the company’s human resources and the engagement of the employees in working towards a common goal remains a challenge.

### ***3.3.2 Operational***

“We have met the enemy and he is us.” This quote by Pogo, Aaker (2001), underscores the challenges facing SuperPages today from an operational perspective. The market acceptance has been excellent with enviable sales results but the company has been plagued with back end process and system challenges.

Economies of scale and tightly knit processes and procedures are imperative for any directory company to achieve a low cost strategy. The ability to continuously examine workflow to find new efficiencies is critical to ensure you are running the business in the most cost effective manner possible.

SuperPages ability to be a low cost producer has been compromised by the single-minded pursuit of top-line revenue. The lack of resources and focus on the operational side of the business resulted in the company failing to meet budgeted net income targets even though the revenue was achieved. High volumes of work being processed on an untried system created serious problems. Data was corrupt on conversion to the new system. Errors in the book caused reprinting costs. Workaround patches due to processes not aligned to the system resulted in large backlogs of work and cost overruns. To compensate for the backlog, an enormous number of temporary employees were hired to process the work quickly. Unfortunately they had no experience in the directory business, which created further errors due to lack of experience, which contributed to additional costs that had to be absorbed.

In order to stabilize operational efficiency, the company must dedicate resources to ensuring processes and procedures are properly aligned with the current systems to achieve maximum productivity.

The former Dominion and TAS were low cost producers in incumbent markets. Both had different processes and they worked on different systems. As well, they each outsourced different pieces of the production process. The newly formed company then introduced a totally new system that impacted every department and they tried to fit it into the existing processes without fully examining the impact on employees, the product, or the customers. The SuperPages brand association with TELUS is well known in the western market and after so many years of putting out accurate books, the customers have accepted the challenges with the product reasonably, and continue to advertise with the company. In the eastern markets this is a more delicate issue, as the market place does not have the long history of producing quality products to refer back to nor a client relationship that would tolerate errors and inefficiencies. If there are errors in the book, there is a smaller chance that companies will continue to advertise in the books in subsequent years.

The company needs to ensure it has the capacity on the operational side of the business to realize the net income targets by reducing costs and increasing revenues without using more capital. This will have the additional benefit of sales reps focusing on identifying and fulfilling customer needs rather than objection handling when interacting with the customer. The focus on short-term perspective of achieving revenue targets must shift to a longer-term goal of sustained

profitability by increasing productivity efficiencies to realize the low cost portion of the equation, while continuing to produce a high quality product that differentiates itself in the marketplace.

The system challenges are being addressed by teams working on aligning the multiple processes in the company to one common process for each application that will guarantee compatibility with the system. There are teams working with the vendor of the customer platform, DSMP, to deliver the upgrades needed to the system to produce accurate books. These initiatives of process review and system alignment are addressing the company's immediate needs. In order to have a long-term effect on the organization these teams need to be fully aware of the company's trajectory for growth and rather responding to the immediate needs, the resources need to be sufficient to handle existing problems while proactively identifying future needs thereby ensuring the processes and systems are adequate to handle the anticipated volumes.

### **3.4 Organization**

#### ***3.4.1 Culture***

The external environment this industry works within is changing. The consumers and advertisers are more sophisticated and demanding than ever before. The realignment from vertical to horizontal integration is impacting the way business is done and, more significantly, the corporate culture of the companies themselves. The culture is shifting as directories become independent, stand alone entities, rather than subsidiaries of the Telco's. There is a much more entrepreneurial spirit which is very different from a tightly regulated bureaucratic environment.

The cultures in the former Dominion and TAS were the foundation of the business, interwoven in all of the employee programs, forms of communication, and fundamental to the success of the business the way it had always been run. The company slogan for many years, "Quality, Our Product, Our People" defined how business was conducted and depicts the internal focus. This belief in quality overriding concern for cost of time or money has created an even greater challenge in shifting this culture to the support of an external, results orientation. The need to focus on innovative products, create new processes, and enter new markets requires a speed in decision-making and an approach to business never undertaken before in these organizations.

The company was well aligned with structure, processes, and systems through to the year 2001 to carry out and maximize on its Strategy. The executive held annual strategy-planning sessions and communicated the outcomes. Employees had a very good understanding of the direction the company was going in, through regular updates in Town hall meetings and the annual employees' Celebration event, where the past years accomplishments were recognized and

the upcoming years' targets were announced. The consultative culture was well understood and supported the organizational goals. High quality was a mantra and was self-policing. Employees had long tenure and when someone new was recruited they quickly learned the expectations through daily interactions with knowledgeable staff.

The company acknowledged the importance of the employees and tremendous effort and expense was incurred to ensure they were fully engaged in the goals of the organization. A consequence of changing business needs, the acquisition, and the arrival of a new president, resulted in the focus shifting from a balance of employees' and customers' interests, operations efficiency and profitability, with a bias to quality, to a focus centered on profitability.

This undermined the organization's greatest strength, the employees. They were no longer aligned to the organization's goals, as they did not fully comprehend the drastic changes the company was embarking on, and what they did understand, they did not always support. Communication was sporadic, strategic and long term planning was placed on a hiatus in the urgency to grow, expand, and introduce new products to the marketplace. The employees questioned decisions being made and were no longer the advocates in the marketplace they once were. The bench strength and culture of the organization that was always critical to its competitive advantage has faltered as the company has undergone dramatic change. This has compromised the companies' ability to achieve its goals and has been a de-motivator for the employees, as they no longer have a clear goals and the same level of pride in the company they work for.

SuperPages has dedicated significant resources to defining an external brand name particularly in the eastern markets. The organization needs to not only communicate the brand's values and attributes to customers and prospects but also recognize the importance of turning its attention to the employees and internal capabilities of the organization, articulating the business values and practices they expect of employees in delivering value to the customer. Communication strategies must clarify the values needed to deliver on the brand promise, where the company is going, and what it will take to get there, as well as convey the importance of the employees' commitment in enabling the company to achieve its goals. The messages must carry enough depth, and consistency to make them credible.

This transition will not occur until the leadership and the internal capability are aligned with policies, processes, and procedures, enabling employees to fulfill their commitments. This alignment needs to be driven by, supported and encouraged by the highest levels of the organization.

The Sales organization is one area of the company that is well aligned to understanding the drive for sales and double-digit growth. The structures are in place. The training program is well developed. The sales people are successful in the market place. The compensation package is designed to motivate and reward high performers. Incentives are frequently introduced successfully to induce short-term motivation. However this success will not be sustainable if the product is produced with errors created in the production of the books. Dealing with unhappy customers who are unwilling to purchase the product will impact the sales ability to earn an income and dampen morale.

It will be necessary to develop performance measures in all areas of the company that will encourage long-term planning and continue the viability and health of the organization. Operational goals and objectives will need to be redesigned and compensation should reflect the changes in culture necessary to support the new direction.

One of the biggest impediments to fully implementing and sustaining the growth strategy as quickly as the senior management would have liked has been the lack of attention and the inability to change the culture in the non-sales area of the organization. The impact of this has been the inability of the operational side of the business to support the dramatic increase in volume from the sales side of the business. As a result of the values and norms of the new company being left unsaid, not all employees understand the importance that quality brought in the sustainability of the brand name. Although the multiple subcultures in the organization have come closer together, they not yet unified and remain unaligned to the strategic goals of the organization. Rather than being an incremental adjustment to an otherwise stable culture, the changes needed to operate on a national level in a fast paced environment will require a compelling, well articulated, vision that will meld the various cultures into one dominant culture.

### ***3.4.2 Structures***

The structures that have impacted SuperPages ability to execute its strategic plan are the changing organizational structures, decision-making processes and lines of communications. Over the past three years the company has been in a continuous state of change. The executive have gone from nine members to six over that time frame and some positions have changed stewardship more than once.

The president, new to Canada in 2001, changed the course of the company and was promoted as head of a special initiative in Dallas in December 2003. His role was filled with an interim president for a three-month period. Then the president of the international directories

assumed the role on an interim basis leaving the continuity of leadership somewhat uncertain. One of the two Vice Presidents of Sales was promoted to a position in the United States and the remaining Vice President assumed the expanded responsibility for the Canadian organization. The Marketing Vice President left the organization this spring, and Marketing came under the responsibility of the remaining VP of Sales. The Operations Executive Director left in December of 2002 and the Executive Director of Customer Care and Quality took on the responsibility of this function as well. This magnitude of change on the executive level is indicative of the organizational changes that have taken place throughout the company. In an effort to streamline functions, some confusion has occurred knowing who has the authority to make decisions and communicate changes.

As the company has gone through these organizational changes the focus on achieving sales results and revenue growth has never diminished. This has necessitated decisions being made on a regional level without a clear picture of where the company is going. The uncertainty of the company's direction, combined with the limited amount of formal communication lines, made it difficult to make confident decisions and the feedback did not return to the decision makers leaving them unaware of the impact of some of their decisions and stunting the ability of the organization to fully achieve its objectives.

An example of this would be managers that had very limited knowledge of the growth expectations for the coming year setting budgets for their departments on an annual basis. They were best guess efforts at best. At worst, managers that now had national responsibility tried to use historical data to project future needs. When budgets were set unwittingly low, managers were held accountable to the budgets and were expected to work within them. This led to cost overruns in many departments as one time expenses and explainable variances occurred. This created excesses in cost and the company was unable to achieve its net income target.

The most common form of communication has been email and primarily in English until just recently. This was a challenge in that the majority of the Ontario workforce did not have access to a computer for long periods of time, as their work was completed manually and they would be out in the field. The French workforce was unable to read the English emails. So as things were changing at a phenomenal speed, much of the workforce was unaware and uninformed.

The most effective form of communication, town hall meetings, was very difficult to continue given the increasing number of locations. The president highlighted the success stories of the company but was reluctant to express bad news. As a result, this venue of communication

quickly lost its impact. The employees questioned whether they were being told the truth, as the challenges they were facing daily were not being addressed.

The employees had been used to relying on formal channels of communications and in the new dynamic environment these forms of communication were breaking down. The resources previously dedicated to providing information to employees were devoted to other pressing priorities. The employees were unaccustomed to having decisions made and information shared by lower level managers and questioned the validity of the information that was being shared. Executive approval continues to be sought on relatively minor issues and therefore, in the absence of clear reporting lines, the communication has been sparse, erratic, and ineffective.

It has been disruptive on the organization being moved from a bureaucratic top down organization to a decentralized organization with an entrepreneurial thrust. The strategy needed to be implemented quickly and decisions made close to the customers in order to penetrate the eastern markets when the opportunity presented itself. However, if the balance of the organization is not brought in alignment with the goals of the company, the strategy will fail. Following the same course without change will result in a medium cost/ medium quality product that will not differentiate itself in a competitive market place and that will ultimately compromise the growth targets and revenue targets.

### **3.4.3 Systems**

Following the acquisition of TAS the systems in the company were not prepared for the changes that were about to take place. The information system was in the process of being implemented and had not been tested. The finance and human resource systems had always been regionally focused. The reward systems were developed for a mature stable company, and planning had also been done in a long-term static environment. These systems all needed to change to support the new direction of the organization.

The need for reliable management information became more critical in the company's ability to make decisions quickly and execute its growth strategy. SuperPages dedicated considerable resources bringing the two companies' systems and processes into alignment. This has been a challenging endeavour as the procurement of the new system was already completed prior to the acquisition, therefore the demands of TAS were never considered in the original needs assessment. When the system was being implemented, challenges arose as the data was being converted to the new system. This caused errors to occur in the phone books at an unprecedented level. Fixes were being done on the fly without careful consideration of downstream effects on

production. These errors caused not only a financial consequence but also a negative consequence to the company's reputation and employee morale.

A team has been formed to ensure thorough pre-testing of all system changes prior to implementation to ensure no detrimental impact to the business occurs. This team is also responsible to align process to achieve maximum efficiency and cost savings. Identifying many manual processes for automation and the implementation of them will further help the company to realize additional efficiencies.

The company has also focused on data warehousing. Prior to the acquisition each company maintained several different databases for information. The goal of the company today is to have one repository for all information so that as analysts create reports, the data is being compiled from one comprehensive source and the results of queries are accurate.

A Corporate Project Steering committee has been formed to approve all projects that require financial and human resources. This committee is responsible for ensuring all projects are consistent with the companies overall goals of achieving low cost structures and a high quality product. They review the business cases for each project, map out how all resources are being allocated to ensure all critical business projects are being addressed first, that there is not conflicting demands on human resources and the budgetary needs of the company are being met, then approve or decline the request.

The financial system in the company is the one area that is closely aligned to the parent company Verizon. The accounting and budgeting prior to the acquisition was a top down driven exercise with very limited input by front line managers. In an attempt to decentralize some of the decision making process the budgeting process, and some of the administrative processes such as the completion of Accounts Payable forms were shifted to the functional areas. This became a very challenging exercise for managers with limited resources an unaccustomed to forecasting budgetary needs. Exasperating these challenges were the quickly changing, fast growing environment and a limited understanding of the company's long-term goals.

The systems and processes in place for recruitment and selection of employees have been stretched beyond capacity to respond to the tremendous volume of employees that have been hired in the company over the past three years. The need to hire large numbers of employees quickly, particularly in the Eastern markets, without full knowledge of the magnitude of expansion, resulted in employees being recruited to fill specific roles without a clear cut strategy of hiring with a long term plan of building bench strength and developing future leaders. The drawback of responding to the immediate needs has been a high turnover in staff and an unsettled work environment.

The original measurement and reward system was designed for implementing and rewarding long term planning in a company growing incrementally. It was considered best in class by the committee evaluating the company for the Canadian Award of Excellence. As the company was evolving and growing, the sales organization was encouraged to ensure events, contests, and incentives were put in place to drive revenue and support short-term behaviours. The support areas of the company did not have the time or resources to change the measurement tools, or the reward and recognition incentives. This created some resistance and undermined the motivation of the support staff as they worked tremendous amounts of overtime to compensate for an unstable system and ensure the sales teams work was processed so the sales people could be duly rewarded, while their own increased efforts went unrecognized.

### **3.5 Summary**

In an effort to expand the directory business in Canada and challenge the largest directory producer in the country, SuperPages is proving to be a formidable competitor. The company has a proven strategy and has developed a competitive advantage in research and development, marketing and sales strategies that has resulted in enviable top line revenue growth.

The most significant challenge to the continued success of the company is the need to ensure employee excellence by developing and growing the leadership talent, deepening the bench strength throughout the company, and aligning the multiple subcultures in the organization to a common goal. Also important is the need to ensure that operational excellence is achieved through aligning processes and the system to realize efficiencies of scale and continue to be a low cost producer.

## **4 RECOMMENDATIONS**

This paper has examined the internal and external environments within which the company works. The challenges that have been raised are well within the ability of the company to address effectively. The overall growth strategy of the company is sound and is proving to be a competitive advantage. However, the weakness outlined in the systems and internal structures, particularly the leadership talent, bench strength, and culture, must be addressed in order to continue with a low cost/high quality strategy. These weaknesses must be addressed aggressively and remedied, although it will be challenging and the cost to repair them will be expensive, both financially and in human capital. If unaddressed, this will have irreparable, long-term damage to the brand name and customer satisfaction. The balance of this paper will be devoted to practical recommendations to address these shortcomings currently experienced in the company.

### **4.1 Stabilizing Processes and Systems**

For the employees to maintain respect and trust in the organization, the company must dedicate resources to resolving the challenges in the systems and processes, eliminating workarounds with permanent solutions, and eliminating errors to restore pride to the employees in the quality of the product they produce.

The team assembled to review the processes and align them to the systems were chosen for their technical expertise in the directory business. They are predominantly long term employees from the old Dominion Information Services structure. These employees have a good understanding of the problems that occur on a national basis but have an underlying bias to the processes, as they knew them in the old Dominion environment. The company needs to hire a number of project managers on a contract basis, whose expertise is in process alignment, and partner these individuals with the existing process team. The current team in place today does not have the resources, the expertise, or the support of the organization, to put weight into the recommendations. With regard to resources, they understand the issue, but they cannot respond quickly enough to make recommendations that can be implemented on a national basis. These partnered teams need to work together to find solutions, make recommendations, solve the process issues, test to see that the recommendations work in a production environment, and then move on. Efficiencies in the company are being recognized but the process teams are encumbered by their commitment or loyalty to the existing protocols. An external project manager in standardizing and formalizing processes would not be inhibited by internal politics of the organization or

sensitivity to existing employees. Their recommendations would be based solely on the best solutions for the company. They need to develop, in consultation with the current process team, a cohesive, comprehensive plan to consolidate and centralize the processes while aligning them to the capabilities of the systems to ensure that it is run in the most efficient manner possible. This plan then needs to be communicated to all employees and timelines set so that employees impacted by the changes have an opportunity to respond to enforced changes in their current career path.

The return on investment for the organization in incurring the added expense of hiring external project managers to facilitate the implementation of the processes will be realized in two ways. First, it will achieve savings by maximizing the low cost strategy. Secondly, it will increase the productivity and motivation of employees, as employees will appreciate the long-term planning of the company. They will respect that the company has a future vision to move beyond the current period of crisis and in knowing where their future will be in the organization instead of it breeding uncertainty in the changes will have a future negative effect on their positions. Employees will understand the plan for the company and their role in it.

In a similar fashion, the challenges in the systems resulting in errors in the books, must be addressed quickly and ruthlessly to protect the quality of the product. As problems are identified in the current system, requests are presented to the vendor for programming changes. The corrections are made and returned to the company and tested. Once the fix has tested positively, it is installed company wide. If the changes are not successful when tested in the production environment, it goes back to the vendor for further rework. This has resulted in the functionality of the system being crippled, not operating at capacity, and implementation at least a year behind where it should be. To get around the piecemeal nature of the changes, the company needs to enter into a strategic alliance with the vendor to solve all issues relating to the vendor product on site. This would speed up the implementation of the system and, provide full functionality, while protecting the quality of the books. It would be in the best interest of the vendor to solve these issues in an expeditious manner to bolster confidence in the ability of the product to fulfil the needs of SuperPages. In order to gain the confidence of the employees that they have the tools at hand to do a job they can be proud of, the company must provide them with those tools or be seen to be addressing shortcomings before the employees will commit to developing their own capabilities to the betterment of the company.

## **4.2 Developing Leadership**

The leadership team plays a vital role in the ability of the company to implement the changes outlined. The company has developed strong sales and marketing orientation, and a finely crafted ability to generate revenue. Employees understand what needs to be done, but not always the why, the how, and their role in achieving these targets. The company needs to develop and grow the leadership talent to execute strategies confidently, to align employees to company goals, and be strong leaders during the rapid growth phase the company is experiencing.

In order to develop the most capable leadership team possible, adjustments will need to be made to the current succession planning process, recruitment and selection, compensation, development and training. The leaders of the company need the mandate of a strong corporate vision, a clear understanding of the strategic priorities, and regular consistent lines of communication, all of which will be addressed in the culture section. The current leaders also need to be developed in industry knowledge, as there is no mechanism to share this information in the current environment, as well as the ability to forge strong relationships across the country. A strong coaching culture will need to be adopted at all levels.

The company currently has a well-designed process for identifying high potential employees and future leaders but the process has not been fully implemented. SuperPages introduced a new Competency Model to the leadership team in the spring of 2004. This model was developed following focus groups held with each level of management, and one on one meetings with high performing leaders, to identify the competencies within the organization that define superior performance. All current leaders and potential leaders were assessed against this model to determine their capability to move up within the company. A number of the identified candidates have already been promoted and in reviewing past candidates identified, the selection process has been quite accurate. The steps in the process that have been missing are the communication with the employees and the development of the identified candidates.

Another step in the succession planning process is the identification of future needs for the organization and areas of risk, where there is only one person who can do the job in its present form and there is no incumbent. In order to compensate for these shortfalls, more detailed, long term planning needs to occur at the senior management level. Once the high potential candidates have been identified and communicated with, and the needs of the company have been addressed, a gap analysis must be performed to determine discrepancies between available talent and the forecasted need for talent.

The communication with the identified candidate is proving to be a critical component in the risk assessment of the company. The candidates on the previously identified succession-planning list who were not promoted were approached when vacancies were available and declined the positions due to lifestyle choices. The company is seeing an increase in the number of employees that do not aspire to leadership roles. It is therefore critical when doing a gap analysis on the workforce and future needs, that the company has not over estimated the strength of future potential leaders.

Continuing the process, a plan needs to be implemented to recruit individuals for the future needs of the company, to compensate for the anticipated areas of shortfall, not simply to fill the job at hand. All identified and newly recruited candidates into leadership roles must have strong development plans in place to meet the timeframes of the company and specific needs of the individuals. The assessments against the leadership competencies form a part of identifying the employee's development needs giving additional consideration to areas of business knowledge, cross-functional awareness, and specific technical knowledge of their work area.

All leaders from the executive team down need to be engaged in developing the leadership talent in the organization by providing practical, hands on experience, and engaging high potential employees in complex Continuous Improvement Teams that are brought together to solve business problems. Workshops need to be delivered to train employees and leaders on how to create a development plan that will be specific enough to address the employee's needs. Proactive planned development has not been a priority historically. High performing employees have been given opportunities to develop and grow on a responsive basis. This worked well in a stable environment but in the fast paced, growing organization we have today, planning must occur to ensure we are developing enough employees adequately, to prepare them for further responsibility.

The mentoring program currently in place in the company is optional for all employees interested in leadership positions or improving their leadership skills. This program must become a requirement for all high potential employees. Mentors should be carefully selected. Candidates should work with their executive members to ensure the best match is made for them. This will encourage sharing of knowledge and building of expanding network relationships within the organization.

Once the succession planning process is fully implemented, the identified candidates should be given first consideration for leadership roles in the organization. This will help to insure that employees with demonstrated abilities, a good understanding of the company, and the culture the company would like to protect are placed in front line supervisory positions. By

promoting from within the organization, it also increases employee satisfaction and motivation. When employees have a perception that people are being placed into positions of authority that they are not prepared for from the employee perspective, there is a subtle diminishing of respect for the position, the person in that position, and the company that put that person into that position. By being proactive in the identification and the development of leadership employees, this situation will be mitigated.

The compensation strategy of the organization was designed for leaders in a mature corporation. A component must be added into the performance measurements to allow an employee to be compensated on a short-term basis for completing projects. Bonuses would provide the motivation for leaders to enhance efficiencies, increase productivity, and improvements to the quality of the product. Tying the development of their own skills and that of their employees to the leaders merit increase would ensure behaviours with a long-term benefit are being rewarded. By building these aspects into the compensation system, the company will reinforce a culture of results orientation, continuous learning, and improvement.

As the culture of the company evolves and the decision making process becomes closer to the work being done, it is important that a coaching culture be adopted throughout the company. Managers are no longer required to be the technical experts of the past. The business and industry are changing and employees that have the knowledge of the industry are unaccustomed to being consulted on business problems. They are unaware in many cases of the amount of knowledge they actually do hold. Employees today must be comfortable identifying problems or inefficiencies in the workplace, determining solutions, and confident in voicing their findings and recommendations. By replacing the manager of old with leaders who are excellent coaches, employees will be fully engaged in looking for solutions to the current business needs.

As the ability of the coaches improves, the true benefit for the organization will be the development of all employees. The coaches will gain a far better understanding of the capability of their employees and employee satisfaction will increase as employees gain an appreciation for the complexity of the problems and are engaged in finding solutions to problems rather than simply identifying them and waiting for a solution to occur.

The company is investing a significant amount of money in conducting workshops with all leaders to improve their coaching skills. For this transition in leadership styles to be successful and become a part of the culture, the executive members will need to model good coaching skills, allow the leaders to make coaching a priority, and follow up with their direct reports on their coaching successes. In today's fast paced, goal oriented environment it is necessary for the executives to make coaching a priority as it is difficult for the leaders to realize or appreciate the

long-term benefits of coaching. In an industry that has very few secrets, and where it is relatively easy to copy products quickly, the only real sustainable differentiator is the quality of the employees and their commitment to the goals of the organization.

### **4.3 Increasing Bench Strength**

As the company puts renewed investment into the development of leaders it cannot disregard the need to develop and grow all employees in the organization. SuperPages faces many challenges as it strives to maintain a low cost, high quality strategy in the face of a quickly evolving industry. The only way the company will be successful achieving this goal will be through the level of skill and ability of all its employees.

As the business needs are changing, so are the skills required in the company. From simple word processing skills to advanced project management, deficiencies must be addressed and employees supported in their development of these skills. The more confident employees are in their own abilities, the greater propensity they will have for risk taking and finding creative solutions. As quickly as work process and system upgrades are making positions in the company redundant, new opportunities are presenting themselves. The company needs to begin planning for the changes in advance of implementation. Working with the Business Process team and the external project managers recommended above, the company needs to create a matrix of jobs that will be created in the company and to identify potential employees within the organization that have the competencies to be successful in the new positions. They also need to identify the positions that will be eliminated through consolidation of work, which of the employees who are currently doing the job that will be impacted by the changes, and create a plan of developing them for other positions in the company. This will help to retain the maximum number of employees that understand the business and will demonstrate the company's commitment to the development of the employees.

As the coaching environment is introduced to the company, the expectation will be that employees will have an increased level of responsibility and accountability. To support the leaders efforts in initiating this change, the company will need to implement workshops on solution based problem solving. They will also need workshops on giving and receiving constructive feedback, as there is still a gap in the current workplace when it comes to giving any feedback of a constructive or negative nature. There is no problem sharing success stories. As the company changes and grows constructive feedback is imperative to ensure the skill sets of employees evolve in tandem with these changes. This will ensure the employee has a forum to

identify and develop skills and capabilities to stay competitive in an environment that is becoming more technology based in its effort to maximise productivity. The company will benefit from the increased skill level of all employees throughout the organization. As the level of competency increases, so too does the ability of the employees to find better solutions and implement them in a timely fashion.

In order to address the depleted industry knowledge due to the period of rapid expansion, high performing individuals should be invited to a forum to share their knowledge of the company and the industry. This information would be documented and translated into a workshop that would be given to all employees as an introduction to the company for new employees, and as background and validation for existing employees. This would expose all employees to areas of the company that they may not even know exist. In addition to one-day workshops, these high performers should be required to be part of an ongoing series of “lunch-and-learns” delivered throughout the country that will heighten awareness of all employees on the various departments within the organization and their interdependencies on each other. This will provide recognition to the employee as being an expert in their field and all employees will gain an appreciation and respect for the complexities of the business.

#### **4.4 Culture**

Every change that has an impact on the way the employees do their jobs or think about their jobs changes the culture of the organization. The recommendations made will define a culture with a balanced focus, retaining the best of both the previous internal and more recent external focus. One of the greatest strengths the company previously enjoyed was that all employees knew the company stood for quality. They took great pride in their role in achieving that goal. Then, the primary goal of the company shifted from quality to achieving financial results. Planning timeframes were significantly reduced but these changes were necessary to overcome complacency, which had crept into the workplace, and take advantage of opportunities in the marketplace. The company could not have sustained its internal focus on quality alone. The shift in focus with the need to achieve revenue results has been firmly entrenched today but not always the reasoning or understanding of the corporate direction. This single-minded focus on profitability to the exclusion of all else is also not sustainable and the company is taking steps to insure the quality of the product is not lost in its quest for earnings.

These large-scale changes in the company’s approach to business, combined with the fragmented subcultures across the country as employees attempt to carry out the short-term

financial mandate imposed have been counter-productive in the company achieving targets. As the company allocates resources to increase efficiencies and productivity, it must not lose sight of profitability but cannot afford confusion on the employees' part as to where the company is going. As the company stabilizes its operational efficiencies in preparation of further expansion, it will be imperative that the executive team create a consolidated strategic plan, articulate the values and behaviours expected of the employee, communicate this vision, and provide the employees with the means to accomplish those goals.

The old executive that was Dominion Information Services was committed to creating and updating the company strategic plan on an annual basis and communicating it to all employees. In the need for speed and quest for profitability, the new executive was unable to commit to the time necessary to develop long-term plans. They have met on a more frequent basis and developed short-term tactical plans with great success. These tactical plans were not communicated to anyone not directly impacted by the plans. Therefore, it left many employees wondering if there was "any" plan in place at all.

In the recommendations outlined, the employees are being asked to commit to their own development to support the company's goals but if the goals are neither clear nor attainable, then the company will never realize the benefit of having engaged employees working towards those goals. Without a clear path, the employees will revert to a "best effort", which may or may not be in alignment with the high level programs of the organization.

The first step in achieving clarity will be for the executive to meet and develop a three to five year strategic plan that considers, not only profitability, but operational excellence, employee excellence, and customer satisfaction. An outcome of this strategic planning session should be the organization's goals for the coming year in the form of a balanced scorecard. During this planning session the executive need to articulate the values that are important to the organization in the manner in which the business is conducted. These values need to be modelled by the executives themselves and adhered to in all circumstances without exception. When employees understand the behaviours expected in the workplace there is less room for interpretation and will smooth out many of the differences in the subcultures, both regional and departmental, across the company. Once the values and the balanced scorecard have been developed, the executive need to hold a leadership conference that will communicate the direction for the coming year and articulate the values expected in the workplace. They would then enter into a working session to take the organizations scorecard and break it down to functional goals for each area. Each functional area would make a presentation of the activities they are committing to achieve the company's success for the following year to the entire conference. These presentations will avoid duplication of

efforts, provide proper allocation of resources, and establish a forum where managers who share work can collaboratively develop long-term plans and re-establish strained relationships.

Following the leadership conference the onus will be on each manager to present the corporate scorecard to their teams as well as the functional goals of the department. They must then take those initiatives and break them down into objectives for each employee in their unit. This will ensure that the employees' actions are in alignment with the corporate goals. They also need to make certain that the employees understand the values inherent in the corporate vision and how the values translate to the day-to-day behaviours expected in the workplace.

For this strategic planning session to be a meaningful exercise, the employees must engage in it and modify behaviours to achieve the goals outlined. A contributing factor to the success of this endeavour will be the ongoing communication and follow-up at all levels. Communication within the company has happened on an ad-hoc basis in the absence of any dedicated resources to internal communications. To transform the culture of the organization so that it is aligned to organizational goals, dedicated resources will need to be devoted to developing and implementing a comprehensive communication strategy. This communication strategy needs to be designed to garner input from all functional areas of the company, employ all media available within the company to communicate openly and honestly with the employees on areas of both successes and challenges. By opening the lines of communication and creating a formalized structure, the feedback loop that was missing from the frontline employees, will now be closed. Understanding problems and localized solutions can now be shared across the company in a timely manner instead of allowing units to live in isolation believing they are on their own and that they have no impact on the overall organization. The mandate of the communication committee will be to ensure information is shared consistently and timely to all employees addressing the previous challenge of unequal communication across the company and the language issues with the Francophone employees.

A common corporate culture will be achieved through a combination of long-term planning and implementing the balanced scorecard through to front-line employees. These initiatives will provide clarity as to 'what' employees need to do. The articulated vision, values and behaviours will provide the "how" work is to be done. Ongoing communication will be the reinforcing piece. This integrated approach will align the culture of the workplace behind the goals of the organization in a manner in which the employees will embrace, as it will have meaning to them. By having these pieces in place, the company will be able to move further and faster by having a united committed workforce.

#### **4.5 Conclusion**

Having completed an analysis on the internal and external environments SuperPages operates within, it became very apparent the Executive of the company took a calculated risk embarking on an aggressive expansion in the eastern markets. Identifying an opportunity in the marketplace, and having the foresight and courage to act on it, has proven to be an excellent short-term strategy that has the potential to catapult the company into the position of leading directory in Canada within the foreseeable future. The company is once again in a position that it will take a tremendous act of courage to flatten the growth curve temporarily to allow the internal resources to build to a level where it can support the current business needs and be the foundation for future growth.

To achieve a low cost/high quality strategy in the midst of high growth SuperPages need informed, knowledgeable employees focused and working together towards a common goal. The leadership team and employees have been responding to the demands the increased volume of work has placed on them and it has taken a monumental effort to just keep up. This focus on their own work without the information or knowledge to understand how they could work more effectively and efficiently is now starting to be a detriment to the business. The inefficiencies in processes and lack of depth in knowledgeable employees continue to create errors negatively impacting the employees, customers, costing the company not only financially, but also damage to the reputation and credibility of the organization.

To realize the goals SuperPages has set in place, the company needs to invest in the people, the leadership talent, and the employees to increase the bench strength and ensure the changes that need to be made happen as quickly as possible without losing the external focus that has brought the company this far. The executive needs to provide the long term direction of a balanced strategic plan, articulate the vision and values, and then communicate on a regular basis to establish and reinforce a stable culture to have the employees working towards a common goal. The company can develop the best strategy imaginable, but without the people and systems supporting the strategy, the momentum developed will not be sustainable and could put the business at risk.

## BIBLIOGRAPHY

Aaker, D. A., (2001). *Developing Business Strategies* (6<sup>th</sup> ed.). New York: John Wiley and Sons Inc.

Bukszar, Ed, (2004). *EMBA Strategy Seminar*. Lecture Slides.

Cohen, A. R., (1993). *The Portable MBA in Management*. Toronto: John Wiley and Sons Inc.

Drucker Foundation, The, (1997). *The Organization of the Future*. San Francisco: Jossey-Bass Publishers.

Fry, J. N. & Killing, J. P., (2000). *Strategic Analysis and Action*, 4<sup>th</sup> edition. Scarborough: Prentice-Hall Canada Inc.

Lawrence, P. R., & Lorsch, J. W., (1969). *Developing Organizations: Diagnosis and Action*. Don Mills: Addison-Wesley Publishing Company.

Porter, M. E., (1980). *Competitive Strategy, Techniques for Analyzing Industries and Competitors*. New York: The Free Press.

Reddin, W. J., (1970). *Managerial Effectiveness*. Toronto: McGraw-Hill Book Company.

Yellow Pages Integrated Media Association (2004), *Yellow Pages 101*. Retrieved May 24, 2004, from <http://www.yppa.org/101/index.cfm>

Yellow Page Group (2004), *2004 Second Quarter Report*. Retrieved May 24, 2004, from <http://www.ypg.com/page.php/en/1/162.html>