

# STRATEGIC FIT ANALYSIS – RW TRACERS

by

Carlos Adolfo Berea Bellon  
BA, Instituto Tecnológico Autónomo de México 1994

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## APPROVAL

**Name:** Carlos Berea

**Degree:** Master of Business Administration

**Title of Project:** Strategic Fit Analysis -- RW Tracers

**Supervisory Committee:**

---

Senior Supervisor  
Neil Abramson, Associate Professor

---

Second Reader  
Ed Bukszar, Associate Professor

**Date Approved:**

August 11, 2005

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## **ABSTRACT**

This paper analyses, RW Tracers, a company dedicated to tracing lost individuals, to determine how to improve its performance since expected sales growth and profitability margin have yet to be met. The company's strategy is examined to determine if the company meets the criteria of strategic fit. To add context, an Industry Analysis is conducted to determine the Key Success Factors of the tracing industry. These Key Success Factors are then linked to the Industry Value Chain to build a model used to measure RW Tracers' performance against two primary competitors. This comparison is then applied to craft a new strategy which is then compared to RW Tracers' internal capabilities to establish if any gaps exist, and if so, whether such gaps can be diminished or eliminated. Finally, specific recommendations are made to enable the implementation of the new strategy to increase the probability of resolving the performance issues.

## **EXECUTIVE SUMMARY**

NOTE: For confidentiality purposes, the actual name of the company analysed and the names of its competitors in this document have been replaced with other names.

RW Tracers Inc (“the Company”) is an independent, privately owned tracing agency that specializes in finding lost debtors, witnesses, insureds, defendants, property owners, stockholders and class action recipients. Ten years ago the company had been a leader in the tracing industry with an exceptional performance track record until the owner of the company decided to start a new venture: a collections agency. Because of this, RW Tracers shifted its strategy from differentiation to cost based. In chapter one of this document, RW Tracers’ strategy was analysed and the conclusion is that the company never completed the leap to the cost based strategy because there were still other external clients that required RW Tracers services. This resulted in RW Tracers’ loss of strategic fit, which has caused performance issues. The owner of RW Tracers has been dissatisfied with recent performance and has decided to actively pursue Marketing to the external tracing market again. This need to improve performance, and the methodology by which this could be achieved, is the object of study of this project.

The tracing industry is a cutthroat one as customers have tremendous bargaining power over the service providers who primarily compete across the price dimension, given that the maturation of the industry has brought it to a point of diminishing margins. . The availability of substitutes, the low barrier to market entry and the significant degree of competition make ongoing success in this market a very difficult endeavour.

As a result of the industry analysis, six Key Success Factors (KSF) were identified:

- a) Reach the larger business prospects via investment in intensive Marketing campaigns.
- b) Innovate and tailor products according to the customers needs (Customisation).
- c) Use an optimum number of Research tools that provide the required information.
- d) Produce accurate tracing information that addresses the client's problem.
- e) Deliver the results expeditiously.
- f) Generate loyalty in the consumer.

Five main activities in the Industry's Value Chain have also been identified:

- a) Marketing and Sales.
- b) Search Details Formalization and Quotation.
- c) Research.
- d) Delivery of Report, Invoice and Accounts Receivables Process.
- e) Post Report Client Service and Feedback.

Both, the Key Success Factors and the Industry Value Chain activities have been linked in developing a grading matrix that can be used as a benchmark to compare RW Tracers against two of its key competitors. The result of the comparison is that, of the three firms, the one with the differentiation strategic fit is performing better than the other two. This finding indicates that RW Tracers needs to pursue a differentiation strategy to solve the performance issues it is facing.

Results of the comparison threats to KSF (a), (b) and (e), (above) were identified and linked to the Value Chain, through which the conclusion is drawn that a new differentiation strategy is required to address these threats. This new strategy can be summarized as follows:

- a) Improve Marketing efforts to bring in larger customers through establishing the message that RW Tracers is the fastest, most accurate, and reliable tracing agency.
- b) Invest in R&D to develop more tailored services as opposed to generic tracing products for the customers.
- c) Invest in enhancing the post-service process in order to establish customer loyalty.

The new strategy has been analysed from the company's internal capabilities standpoint to determine the gaps that need to be closed in order to successfully implement the new differentiation strategy. The conclusion of this analysis is that there are several gaps that need to be addressed in order to make the strategy work. It has been concluded that, with appropriate action, the gaps identified could be closed.

Finally, a specific action plan has been recommended to implement the differentiation strategy that satisfies the key decision makers' criteria of increasing sales by \$600,000 and profit margins by five percent.

## **DEDICATION**

I dedicate this project to my wife, Lorena Morales Wright, whose love, strength and understanding supported me throughout the entire program and made this great achievement possible. She was always there for me to make sure that I would always stand up straight when facing adversity.

I dedicate this project to my son, Alain Berea Morales, and my daughter, Michelle Berea Morales, who have made me want to become a better and more complete human being every day so that they can always be proud of who I am.

I dedicate this project to my father, Carlos Berea Lagarda, whose example has inspired me to become not only a successful business professional; but also a successful individual in all other areas of life.

I dedicate this project to my mother, Sylvia Bellon Sobrino, whose words of support have encouraged me to always look at the positive side of things in order to reach higher levels of personal and professional accomplishment.



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## **GLOSSARY**

<b>CRM</b>	<b>Customer Relationship Management.</b>
<b>KSF</b>	<b>Key Success Factor.</b>
<b>IRR</b>	<b>Internal Rate of Return.</b>
<b>R &amp; D</b>	<b>Research and Development.</b>
<b>RFM</b>	<b>Recency, Frequency and Monetary Value.</b>
<b>IT</b>	<b>Information Technology.</b>
<b>CLV</b>	<b>Customer Lifetime Value.</b>
<b>IPO</b>	<b>Initial Public Offering.</b>

# **1 OVERVIEW OF THE FIRM, THE PROBLEM AND ITS IMPORTANCE**

RW Tracers, a Canadian Corporation dedicated to tracing lost individuals, is examined to determine how to improve its performance given its expected sales growth to \$600,000 and profitability margin of five percent have not been met.

First, the company's strategy will be identified and analysed to understand the current situation of the organization.

Second, the Key Success Factors in the Tracing Market are identified in order to compare the firm being analysed against its top competitors. This comparison is then used to identify areas of improvement in the Value Chain to craft a new, enhanced strategy.

Third, the enhanced strategy is compared against the company's existing internal infrastructure to determine if the new strategy is feasible.

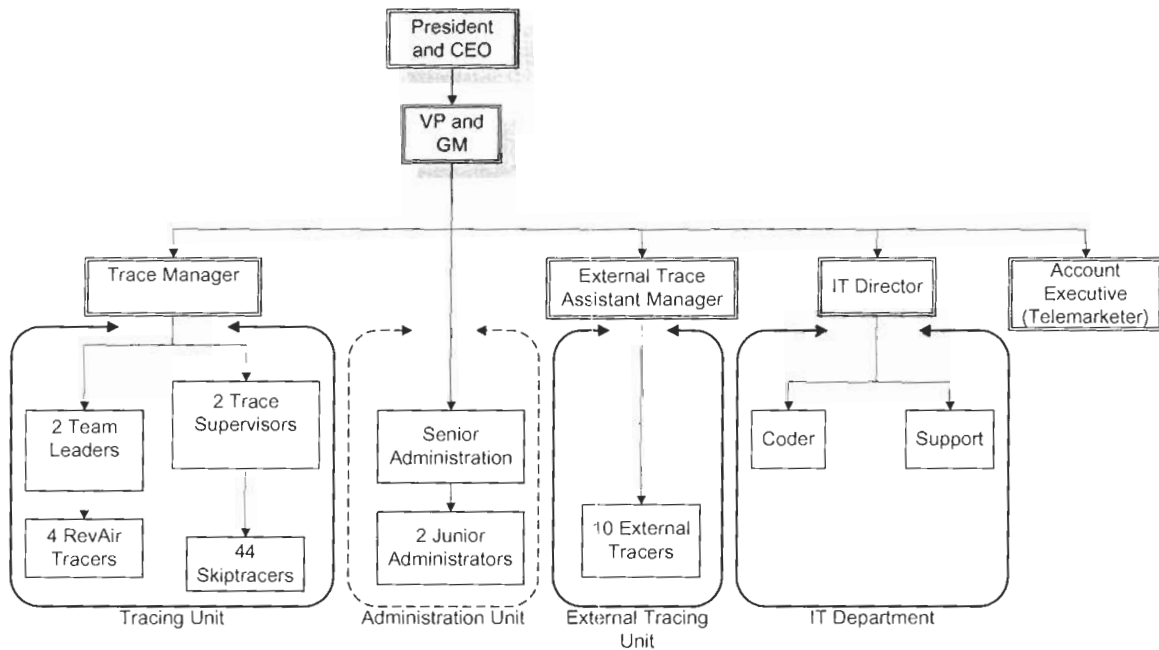
Finally, any gap in the current strategy relative to a new strategy and the internal environment, recommendations to address these are proposed to achieve the performance targets.

## **1.1 History and Background**

RW Tracers Inc (RWT) is an independent, privately owned, tracing agency that specializes in finding lost debtors, witnesses, insureds, defendants, property owners, stockholders and class action recipients. The company has been serving law firms, banks, creditors, insurance and government agencies for over thirty years. Since inception, the company has successfully traced countless thousands of people with the utmost professionalism and discretion. RW

Tracers' three-tiered search system allows the customer to select a search according to the urgency of the required results. Currently, 73 employees work for the firm and their organization is as shown below:

**Figure 1.1 Organizational Chart.**



RWT offers three main products that have different pricing depending on the urgency of results associated to the file. The services offered are: ten, thirty or ninety-day searches. The relationship between price and speed is inversely proportional. This means that the quicker the response, the higher the price. The same entrepreneur that created RW Tracers, started a new collections agency ten years ago and, in order to achieve better collections results, decided to focus most of RW Tracers' efforts to locate debtors associated with accounts owned by the collection firm. The rationale behind the shift in focus was to ensure more accurate information on any given debtor and expedite collections. This net effect of this strategy was that the Vision,



Mission and Strategy of the organization changed to accommodate the requirements of the new collections agency.

## 1.2 Problem

Low profits translating into low IRR levels compared against market (sixty percent of market IRR level) and slow sales growth have been the indicators for the last ten years that the current strategy of the company is flawed. Growth and profitability have remained constant and yet expectations have not been met. Specifically, the decision criteria that the President of the company will use to determine if a change on the strategy is successful or not are sales growth and profit margin. The specific targets are as follows:

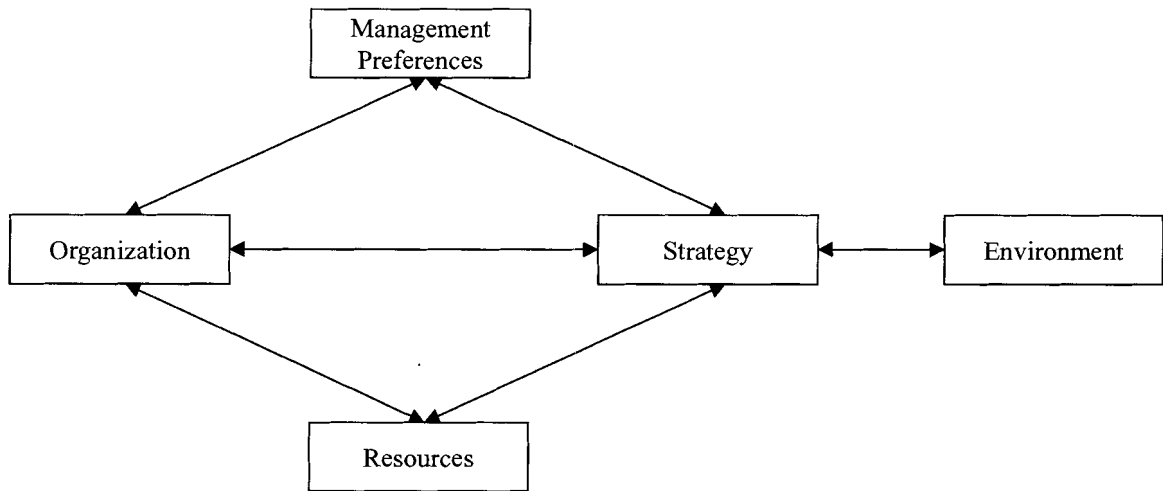
- a) Profit margin needs to grow by five percent per annum.
- b) Sales need to grow by \$600,000 per year.

If the above targets were met, the company's performance would be considered successful by top management. Given this, the next step is to analyse the strategy to identify possible flaws. A result of this examination would be determination of the Key Success Factors in the Tracing Market in order to improve the existing strategy to achieve the above targets. With this information, a new strategy will be matched with the company's existing capabilities to determine the gap with the proposed strategy so a clear Action Plan with Next Steps can be implemented. This methodology by which the preceding will be achieved is known as the Diamond-E Framework<sup>1</sup> as shown in the figure 1.2. The objective of the Diamond-E Framework is to establish consistency between the environmental requirements, the corporate strategy and the internal capabilities of the firm.

---

<sup>1</sup> Crossan M. Mary, Fry N. Joseph and Killing Peter J., *Strategic Analysis and Action*, Pearson Prentice Hall, Sixth Edition, p. 42

**Figure 1.2 The Diamond-E Framework.**



### **1.3 Corporate Strategy**

As noted above, the first step on the analysis is to identify the flaws in RW Tracers' strategy. In order to do this, Michael Porter's (1980a) Competitive Advantage model will be used. A critical flaw exposed through the application of the model is that the company does not have a strategic fit. Half of Michael Porter's (1980a) strategy variables analysed are Cost Based Strategy related and half are Differentiation. RW Tracers is an example of a classical case of a company whose strategy is "stuck in the middle" as Porter would put it, and therefore ineffective. The company began with a strong differentiation strategy thirty years ago and subsequently migrated to a cost based strategy without completing the leap. As mentioned earlier in this document, when RW Tracers' President started his collections agency, the vast majority of RW Tracers' efforts were then focused to locate debtors for the newer firm in order to get better collections results. The objective of this new direction was to ensure more accurate and expedited collections. This decision caused RW Tracers' original differentiation strategy to shift towards a cost based strategy so that costs to the new, and related, firm would be low. The shift to the cost based

strategy negatively impacted RW Tracers performance by shifting its sales from higher-margin external clients to related company endeavours. The graphic result of RW Tracers' "stuck in the middle" strategy, according to Ed Bukszar's 2005 class notes, can be seen on figure 1.3. The forces involved in making the shift happen will be discussed in this section of the project in order to understand the contradictions in each one of Porter's variables.

**Figure 1.3 Strategy Map.**



### 1.3.1 Product Strategy

From this strategic standpoint, the company could be characterized as innovative in its origins. However this is no longer the case.

Because RW Tracers began its operations over thirty years ago, the company was a pioneer in creating new products that were unheard of at that time. By providing the market with three different products (ten, thirty and ninety-day searches) the company managed to differentiate itself from other competitors that were only offering one type of search: a ten-day rush search. RW Tracers used to endeavour to develop new ideas and products to differentiate itself from its competitors. Despite the fact that the company once leveraged its innovations, no major breakthroughs have been achieved recently since the company shifted its focus to satisfy only a related company, as opposed to addressing market forces. The only innovations over this

ten-year period have been in process and not product. RW Tracers now uses the Internet to enable external researchers to provide live updates to the database. This is but one element that illuminates the fact that RW Tracers has lost contact with its market and it has not dedicated time to conduct fresh Research to listen to customer needs and to innovate. The attitude towards service development has been more reactive than proactive. Given this, it is clear that the Product Strategy has become more Cost Based. However, RW Tracers is not a rapid follower either. It takes time for RW Tracers to copy what the competitors do and in some instances RW Tracers does not follow others at all.

### **1.3.2 Research & Development Expenses**

RW Tracers Inc is a service provider as opposed to a consumer goods producer. Because of this, Research & Development expenses do not apply in the same way as in the consumer goods industry. The fashion by which RW Tracers used to undertake the R&D process was to simply conduct Research with its clients in order to determine new service requirements in the market. Afterwards, RW Tracers would work on implementing the infrastructure to satisfy the service need. If this new infrastructure constituted a good option for at least thirty percent of the customers, the new option would also be offered as a new product to other customers.

As discussed earlier, RW Tracers hasn't engaged in any R & D activities during the last ten years. Because of this, it could be argued that the company has also taken a cost based approach on this variable.

### **1.3.3 Structure**

As the company is privately owned, the structure is centralized so the strategy here is cost based.

The company is completely centralized and it seems unlikely that this will change since the President and CEO of the company, in conjunction with the General Manager, has complete control over the firm. The President has not hinted to any kind of decentralization in the near future.

#### **1.3.4 Decision Making**

Because RW Tracers Inc is a privately owned company, decision-making is not autonomous and falls within the President's and the General Manager's control. This contributes to increase the company's competitive advantage because reaction to market changes and other forces can be implemented quickly without a convoluted bureaucratic process. Decision-making falls within the realms of 2 key executives (President and VP shown on figure 1.1) in the organization and the implementation of such initiatives can be triggered within days of having a final decision on any specific issue. The downside to this decision making process is that no other input is received relative to maintaining a strategy that would be responsive to both individual decisions as well as market forces. This has caused the failing strategy to prevail for the past ten years.

#### **1.3.5 Labour**

In RW Tracers Inc.'s business, highly skilled labour is everything. Tracers need to be proficient in various search methodologies in order to find the person. Usually, the client provides the company with very limited information on the individual that needs to be found. Skilled researchers can find a person sometimes within one hour while an average tracer may take days to do so. It is imperative that each tracer hones his skills quickly, thereby maximizing revenues. Because of the economies of scope and the very different types of searches, the highly skilled labour is essential.

Mass production labour is not an option because RW Tracers is a job shop with different searches and procedures reflecting individual situations. Mass production in this firm would result in many cases being unresolved, as the focus would be on results, and not content-centric results. This is the kind of result that would negatively impact the business' market share.

### **1.3.6 Marketing**

Originally, the company used the “pull” approach in Marketing in order to lure clients into the company's product line. One Account Executive / Telemarketer would make phone calls and create relationships to convince the client that they need the company's services. This approach has been abandoned over the past ten years.

Marketing is now limited to “push” strategies such as Direct Mail. These mass mailing strategies are relatively untargeted. The company is also using its website and magazine ads as Marketing vehicles. Attending conferences is also a common Marketing tactic for RW Tracers. Each of these tactics is cost effective because the objective is to reach as many people as possible for the lowest investment possible. The company has clearly adopted a cost based Marketing Strategy.

### **1.3.7 Risk Profile**

RW Tracers Inc.'s risk profile is high because it has considerable dependence on macroeconomic factors. New legislation related to tracing lost individuals arises virtually daily. These regulations often significantly impact the ability of the company to conduct search activities in certain states within the US. For example, in some states, only one phone call to the same debtor is allowed per day, as more phone calls would be considered harassment.

Mergers of financial institutions and law firms may also have considerable impact on the tracing services market since loyal clients may be lost in the process. New technologies and free

Internet database search engines also represent for a threat to the company. The fact that clients are becoming more intelligent in locating lost individuals themselves puts the tracing agency industry at risk. Clients of RW Tracers have expressed that now they use the Internet to conduct simple, informal searches by themselves. If they cannot solve the problem, then RW Tracers is contacted.

The risk profile of this company has never been and never will be low. The reason for this is that there are too many factors that are out of RW Tracers' control. These factors, mentioned above, will continue to be part of the Tracing industry.

### **1.3.8 Capital Structure**

Being a wholly owned family business, the capital structure of RW Tracers is a conservative one. The company is 100 percent owned by the President and CEO of the company as such, the investment decision paradigm is a conservative one.

Originally, the company started with a small amount of leverage capital from banks and other financial institutions. However, all indebtedness has been eliminated and the tracing company now operates based entirely on the plowback of profit generated by the company on a standalone basis. This fact has increased even more the power of the central decision makers. For this reason, figure 1.3 shows a movement towards the conservative capital structure. As the company grows, it is possible that new leverage may be required.

### **1.3.9 Summary**

RW Tracers needs to considerably improve some aspects of its strategy in order to be successful. In order to determine the correct strategy, an external analysis has to be conducted first to determine what are the Key Success Factors (KSF) in the industry. This will be done in the next chapter.

The Key Success Factors in the Tracing Market will be identified in order to compare the firm being analysed against its top competitors. This comparison will be used to identify areas of improvement in the Value Chain to craft a new, enhanced strategy.

In chapter three, the proposals for an enhanced strategy will be compared against the company's existing internal infrastructure to determine if the new strategy is feasible. If the strategy is not feasible because there is a gap between the new strategy and the internal environment, clear next steps will be defined to close the gap to improve performance.

Finally, in chapter four, a clear action plan will be developed so that this document can be practically implemented in order to improve the company's performance according to the decision criteria shown earlier in this document.



## 2 EXTERNAL ANALYSIS

The tracing market is estimated to be a several hundred million-dollar industry according to RW Tracers' top management team. Competition in this market is merciless because it is a mature industry where increased share may only be achieved by taking it from other firms. RW Tracers' main focus is the USA market; however, overseas searches (outside of USA and Canada) are also conducted as requested. The market is comprised of thousands of companies dedicated to finding people for different purposes. Price ranges are extremely variable as the purpose for each search, and the searches themselves widely vary. There may be some searches where a simple database search could be enough. In other instances, it may take months of extensive Research work to find the lost person. These characteristics make this industry an interesting topic for analysis.

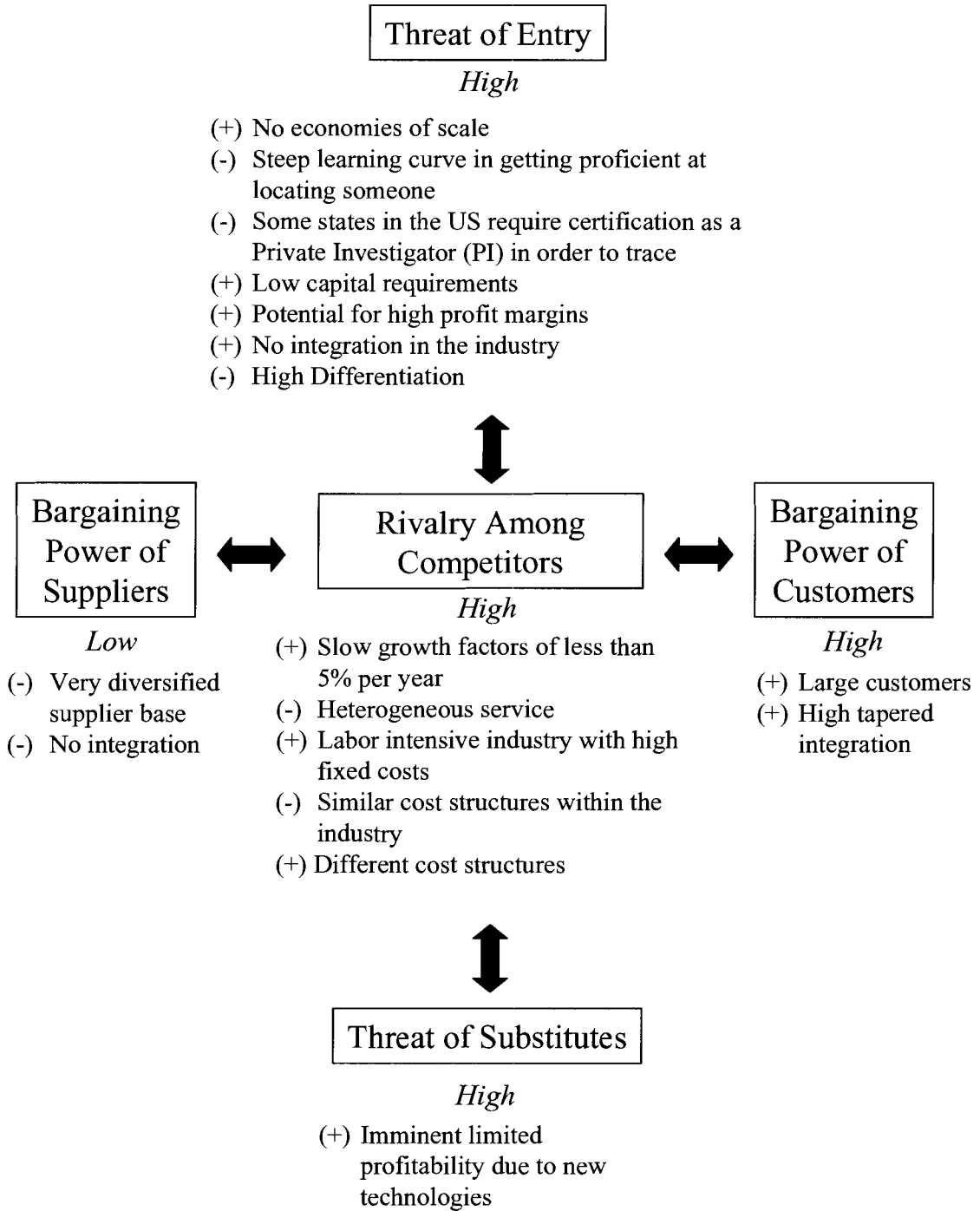
Taking into consideration the above-mentioned details, Michael Porter's (1979) five forces model may be adapted from the article discussed with Ed Bukszar in class to generate Figure 2.1.

Summarizing Figure 2.1, it can be concluded that this is a cutthroat industry because customers have tremendous bargaining power over the tracing agencies that are constantly in battle against each other due to the lack of growth driven by the maturity of the industry. The real threat of substitutes, the high threat of entry and the significant competition make this market even tougher. It is obvious that after looking at this industry picture, three key questions arise:

- a) Is this industry attractive?
- b) Will this industry continue to be attractive?

c) What are the Key Success Factors in the industry?

Figure 2.1 Industry Picture.



## **2.1 Analysis of the Industry Picture**

The industry picture alone can probably answer the above questions immediately; however, it makes sense to first analyse each one of these forces in order to give a more accurate response to each question.

### **2.1.1 Moderate to High Threat Of Entry**

The threat of entry is moderate to high because, there is a huge niche market that provides potential high returns and profit margins through non-intensive capital requirements. In summary, this market has high returns and low barriers. The only barrier is related to procuring researchers.

#### **2.1.1.1 Scale Effects (+)**

Because the tracing industry is a niche market and each search is different, there are no economies of scale with respect to tracing methodologies. Most of the firms in this business are small agencies where customisation and not mass production is the key. The lack of economies of scale amplifies the effect of entry because other entrants that may be drawn to this segment of the market will not have to face powerful economies of scale. There is a large market for “boutique” type tracing companies. New entrants may decide to compete at the niche level. The size of this niche market is considerable and difficult to estimate because of the peculiarity of the industry. The size of the entrants may comprise, in some instances, only a single individual that knows how to conduct Research and is certified to do so.

#### **2.1.1.2 Steep Learning Curves (-)**

This is a considerable barrier to entry. There is a steep learning curve in getting proficient at locating people. In some states in the US, it is even mandatory to get certified as a Private Investigator (PI) in order to conduct the work. It may take years of Research just to find the right

tools to conduct proper Research; and even after the tools are in place, it takes time to understand how to better use them in order to be efficient and competitive.

#### **2.1.1.3 Certification and Government Regulation (-)**

This factor can be considered as one that reduces the threat of entry. In some states in the US, not everyone is allowed to trace people. By law in most states in the US, the tracers have to be certified and licensed to perform Research activities. In these states, the law is very rigorous because, for example, if a debtor is found via an uncertified tracer, the debtor is entitled to sue the company that traced him for not following best practices. Besides this, the government also has Privacy regulations that dictate how Research / tracing can be conducted. Every year, new laws are issued that affect this industry to a considerable extent. There are some states in the US that even regulate the amount of phone calls that can be made to one individual in order to obtain information that will lead to a person.

#### **2.1.1.4 Low Capital Requirements (+)**

This variable increases the threat of entry because this industry can be considered low in capital requirements. The reason for this is that an experienced researcher may be able to find the lost individual with just a few phone calls. Knowledge is everything in this industry. There are literally thousands of independent tracers that work from home and are very successful at locating lost individuals. In these cases, capital investment is almost zero; however, the profit margins are pretty high if the search is successful.

#### **2.1.1.5 Potential for High Profit Margins (+)**

This variable considerably increases the threat of entry. The reason for this is that there is information asymmetry between supply and demand in the niche market described above. The company paying for the tracing services can never know how much Research is required for each case; and because of this, tracing companies can charge in most cases considerable amounts of

money for a very limited amount of effort. Usually, a search may take only a few hours of a tracer's time but the agency may charge fees that are in some cases ten times greater than the cost. This translates to the customers paying "boutique" prices for talent of the tracers working for them.

#### **2.1.1.6 Low Integration (+)**

Low integration levels increase the threat of entry. Integration does not play a significant role in the industry because the companies provide services and not consumer goods. Tracing services companies only need to have researchers / tracers along with a Sales department that will go after the business. This means that tracing agencies do not integrate vertically or horizontally. For example, it is uncommon to see a tracing agency that also sells databases that are used to conduct searches. Another example is that it is rare to see a tracing agency that does its own mailing of the reports produced. It is also not very common to see acquisitions or mergers between tracing companies. The small ones just basically disappear. The industry is configured in such a way that there are no additional functional areas that could be integrated.

#### **2.1.1.7 Differentiation (-)**

This factor can be considered as one that decreases the threat of entry. This factor is tied to the Bundling factor discussed earlier. The trend in the industry is towards tracing companies expanding their Research knowledge into different segments. This means that their search firms, for example, are also offering tracing services. Tracing agencies are starting to trace any kind of file (class actions, insureds, witnesses, etc.) instead of simply focusing on one segment of the market. This is being used as a differentiation strategy nowadays.

#### **2.1.1.8 Summary**

After analysing the first force, it is obvious that there are three clear KSFs that can be derived. The reason why proficient researchers are so important is that customers expect to obtain

accurate tracing information that solves their problem as quickly as possible. This is the core of the tracing business. So a company that provides accurate, expeditious results will prevail in the market. So, the first two KSFs that can be derived from this analysis are:

- a) Produce accurate tracing information that solves the client problem.
- b) Deliver the results expeditiously.

In addition to the above, there is one more KSF that can be derived from the analysis on Porter's first force. Given companies are currently trying to differentiate themselves by providing more service options to solve the clients' needs, it is key to invest in R & D to develop such services. This means that RW tracers will need to go back to its origins and start developing services again. So it can be concluded that the third KSF is:

- c) Ability to innovate and tailor products according to the customer's needs.

### **2.1.2 Low Bargaining Power Of Suppliers**

There is low bargaining power of suppliers due to an extremely diversified supplier base with no integration power.

#### **2.1.2.1 Diversified Suppliers (-)**

The number of database suppliers available for Research purposes is also enormous. There are practically thousands of companies selling different databases out there. Most tracing agencies use several dozens of database suppliers simultaneously because each database may contain different information due to the timing and methodology by which the databases are populated. Because of this diversity, it is difficult for suppliers to leverage their size to obtain benefits in their negotiations with the tracing companies.

### **2.1.2.2 No Integration and Tapered Integration (-)**

As detailed earlier in this document, there is practically no integration (vertical or horizontal) in the industry. Most database sellers only sell databases. It is unlikely to see database providers conduct searches themselves. Because of this, suppliers do not have bargaining power that could derive from the imminent threat of integration.

After analysing the second force, one clear KSF can be derived. The fact that there are so many suppliers can make it difficult to select the best candidates. Not only is it difficult to choose the right suppliers; but it is also key to select the amount that is enough to provide the required data for a successful search. Because of this it can be concluded that a KSF for this industry is:

- d) Use an optimum number of Research tools that have the required information.

### **2.1.3 High Bargaining Power Of Customers**

There is high bargaining power of the customers mainly due to their size and integration capabilities as detailed below.

#### **2.1.3.1 Large Customers (+)**

In the tracing industry, about fifty percent of the clients are large trust and financial institutions and 50 percent are small law firms. The large customers do have a considerable bargaining power over the tracing companies because of the volume of searches they require on a monthly basis. Most of the tracing companies will compete in order to close deals with the big players in the Trust and Finance Industry. This competition is based on the quality of the service and accuracy of the searches. The tracing agency that offers the fastest and most accurate results wins the deal. Integrity is also very important. There have been cases in the industry where some tracing agencies find the incorrect individuals just to charge their fees to the client.

### **2.1.3.2 Integration and Tapered Integration (+)**

This is a significant factor that increases bargaining power of customers because the big players / clients in the industry are integrating more frequently as time goes by. More and more banks are developing their own in-house tracing operations in order to save money. These large customers have the means (capital and knowledge) to conduct tracing on their own, so the threat of integration is real and frequent. This is tapered and backward integration because it happens gradually in most cases. The trust companies start by hiring one tracer with two search databases. Then more tracers and databases are acquired.

### **2.1.3.3 Summary**

After analysing the third force, two KSFs stand out as obvious. Because the large customers have such a huge power, it is important to target and retain them since they are a huge source of business for tracing agencies. So the KSFs for this force are:

- e) Get first to the big consumer via intensive Marketing.
- f) Generate loyalty in the customer (one to one relationships).

### **2.1.4 High Threat Of Substitutes**

There is a threat of substitutes that jeopardizes the high profitability of the industry mainly due to new technologies. The world is changing. What in the past was an excellent business because people were not willing to spend considerable amounts of time finding a lost individual, is now being replaced by a couple of “clicks” of a mouse.

#### **2.1.4.1 Imminent Limited Profitability (+)**

There is a threat of substitutes in the tracing industry that may primarily come from the technology industry. As a matter of fact, this has already started to happen. The large database suppliers are also making their databases available to the public that is part of the tracing agency



customer base. This means that the Internet and the computers are making it easy to get the raw data and compare it in order to find people easily. Since these suppliers sell raw data, it becomes very cheap for the savvy customer to conduct a search and be successful in locating the lost individual. As a result of this, Internet search engines and databases may substitute the tracing service agencies.

After analysing the fourth force, it is clear that the only way to compete against this technology is through achieving results that these systems cannot. One way of doing this is through the human value added that researchers provide. Researchers can use this new technology and combine different sources of data to obtain a result that the simple use of the resources will not generate. So this again relates to a KSF discussed earlier, which is to produce accurate tracing information that solves the clients' problem. This KSF also relates to another one that was also mentioned earlier which is: use an optimum number of Research tools that have the required information. This KSF also relates back to customer loyalty (building relationships) because the face-to-face approach is a big value to a customer. So, it is fair to say that the analysis of this force reinforces the importance of three of the KSFs discussed earlier in this document.

### **2.1.5 High Rivalry Among Existing Competitors**

There is high rivalry among existing competitors in the market because the tracing industry is a slow growing industry with very heterogeneous services, high fixed costs and different cost structures.

#### **2.1.5.1 Slow Growth (+)**

This factor increases rivalry among competitors. There are so many companies and independent tracers competing for the same market, that growth for each company is lower than five percent. The fact that tracing agencies can have high profit margins does not mean that the volume of sales changes considerably. The key to the slow growth is sales volume. Growth

factors of five percent versus previous year can be considered great achievements. The market of people looking for lost individuals is constant and in some instances, it may even decrease as more and more information is made available on the Internet.

#### **2.1.5.2 Heterogeneous Service (-)**

This factor decreases rivalry among competitors. It is well known in the industry that each search is different. To find proof or whereabouts of a lost individual is the key; and for each lost individual this varies. So the service is extremely heterogeneous. The procedure followed by the agency can be totally different between search types too. The process to find a lost insured is not the same as the one used to find a class action recipient. Even the reporting changes, not only from firm to firm; but also from one case to another. This decreases rivalry because each company has a different way to provide the service. If all tracing agencies provided the exact same service, then rivalry would increase. The fact that there are no standards decreases rivalry.

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

This factor increases rivalry among competitors because there are almost 100 percent of fixed costs. The reason for this is that the main input is manpower. Tracers receive a monthly salary regardless of the number of cases that are sold. Piece rates and commissions do not work for internal tracers because their performance evaluation does not depend on the ability of the Sales staff to get new business. The tracing companies also pay a monthly fee in order to access the Research tools used to locate individuals regardless of the cases sold. This means that, if an agency is unable to bring in the necessary volume of sales, the fixed costs will still apply. This does not mean, however, that there are no variable costs like the tracers that work off site. These individuals are paid per located individual.

#### **2.1.5.4 Differences In Cost Structure (+)**

This factor is increasing rivalry among competitors because there are very different cost structures within the different tracing organizations. The reason for this is that each company may pay different salary levels to the tracers / researchers. This is not a very standardized cost structure. The tools and resources used for researching purposes in each firm may also vary, resulting in different cost structures. The cost structure also depends on the complexity of the searches conducted and the proficiency of the researchers solving the cases.

#### **2.1.5.5 Summary**

After analysing the fifth force, it is clear that the only way to compete against other tracing agencies is to maintain differentiated heterogeneous services. In order to do this, R & D is required to always maintain the heterogeneous services up to date and relevant to the customers. It is also important to have good researchers and Research tools to support such services. Because of this, it can be concluded that this analysis supports the importance of the KSFs that were mentioned earlier in this document.

The above five-force analysis can now be used to answer the three key questions posed earlier in this document.

The first question is: Is the industry attractive? The answer to this is clearly no. Just by looking at Figure 2.1 it is obvious that most of the forces are high. There is just too much customer power in a rivalrous industry where there is a high threat of entry and substitutes. The second question is: Will this industry continue to be attractive? No. It does not seem like this industry will be attractive because it is a fact that new technology and the proliferation of cheap accessible data will eventually make it very easy to find lost individuals without having to hire a professional tracing firm. As with almost any industry, there is a maturation cycle where, over time, margins become smaller, and services become less valuable. This is something that is

already happening. There are Internet websites where people can now search for school colleagues and friends. Employers can also search for employees, etc. So, the threat of substitutes will continue to become more important and this will reduce profitability, which is currently the main reason why this industry may be attractive now. To this dismal future, the tapered backward integration of the customers can also be added.

Finally, the last question is: What are the key success factors in the industry? In summary, there are six KSFs that were identified earlier in this section. Table 2.1 shows such KSFs:

**Table 2.1 KSFs and Success Contribution.**

	<b>KSFs</b>	<b>SUCCESS CONTRIBUTION</b>
<b>1</b>	Get first to the big consumer via intensive marketing	<b>19%</b>
<b>2</b>	Ability to innovate and tailor products according to the customers needs	<b>14%</b>
<b>3</b>	Use an optimum number of research tools that have the required information	<b>10%</b>
<b>4</b>	Produce accurate tracing information that solves the client's problem	<b>27%</b>
<b>5</b>	Deliver the results expeditiously	<b>8%</b>
<b>6</b>	Generate loyalty in the consumer	<b>22%</b>
	<b>TOTAL</b>	<b>100%</b>

The above table shows the six KSFs discussed in the previous section as well as their estimated contribution percentage to success. The percentages shown in table 2.1 are estimates

according to feedback received from RW Tracers' clients as well as key decision makers in the firm.

The above table shows that a tracing agency's accuracy at finding lost individuals is the most relevant KSF because, for the purpose of this document, it is estimated that thirty percent of a tracing agency's success comes from this factor. It is also important in this industry to get first to the big consumers via intensive Marketing and then delivering an accurate and expedited tracing service that will generate loyalty in the consumer. Price is not what drives the market and clients are willing to pay more for speed and quality. The reason for this is that the trust and legal institutions have a legal duty that drives the need of the search. This means that the companies have to comply with some legal obligation. For example, an insurance company may need to locate a witness of a car accident in order to pay the claim.

From the above table it can also be inferred that good Marketing strategies combined with differentiated and better products (innovation in tracing services) that will generate increased volumes will make a successful tracing agency. Getting to the large customers and diversifying the supplier base seem to be relevant elements for success in the industry. Because of the high profit margins, if volume is achieved, high profitability is to be expected. The tracing company that will get most of the business and delivers the promise of solving the client's problem quickly and accurately will lead. Now that the industry KSFs have been pointed out, the next step in this analysis is to identify the key activities of the industry Value Chain to then match them with the corresponding KSFs to analyse the relationships that exist between them.

## **2.2 Industry Value Chain**

The industry Value Chain is basically composed of six main activities:

1. R & D Service Development

2. Marketing and Sales.
3. Search Details Formalization and Quotation.
4. Research.
5. Delivery of Report, Invoice and Accounts Receivables Process.
6. Post Report Client Service and Feedback.

According to the Value Chain model in Ed Bukszar's (2005) class notes, the above Value Chain activities are related as shown in Figure 2.2 below. Looking at RW Tracers' Industry Value Chain, it is obvious that the Company owns most of the activities related to its operations. Now, the next step is to analyse each one of the activities inside the Industry Value Chain as well as their relationships to the KSFs described earlier in this chapter. It is possible that each one of the activities in the Value Chain may contribute to more than one of the KSFs identified earlier in this document. This situation will be mentioned for each one of the activities in the Value Chain.

**Figure 2.2 Industry Value Chain.**



Proportion of activity conducted in-house

Outsourced proportion

### **2.2.1 R & D Service Development**

The Value Chain starts with the R & D Service Development where the tracing agency designs and tailors search services according to the needs of the market. This activity is related to the KSF number two in table 2.1. Good R & D should result in innovative products tailored to the customers needs. During this activity, the tracing agency listens to the client's needs first. In most instances, this is done in house using the call centre as a Marketing Research area. The Research conducted is focused on understanding what are the speed and quality expectations so that services can be designed to comply with such expectations. The tracing agency then focuses on streamlining its procedures and acquiring the necessary resources to provide the customers with the required service.

### **2.2.2 Marketing and Sales**

This activity is clearly related to the KSFs numbers one and five in table 2.1. Proper Marketing and Sales efforts should bring in the big customers and retain them within the tracer agency. The Marketing and Sales effort brings in the demand for searches of lost individuals. Since RW Tracers is a service firm instead of a manufacturer of goods, each service is tailored to the client's needs, so the Company doesn't keep inventories of any kind. For the Marketing and Sales component, the Company does eighty percent of the work and the remaining twenty percent is outsourced. Most Tracing agencies use their prospect databases (potential customers) and client databases (contact that have had business with the Company in the past) to conduct Direct Marketing activities to generate business. Through Telemarketing (call centres) the tracing agencies pull customers into the business by calling the contacts in the database and asking if they need to find someone. The Telemarketing efforts are reinforced by periodic Direct Marketing campaigns, mainly driven by the Direct Mail efforts.

Besides the above Marketing efforts, the market in general uses ads in specialized magazines, mainly Legal and Trust community oriented magazines. It is also common in the tracing industry to attend to conferences related to Legal and Trust matters. The conferences talk about Information Technology, new regulations and other subjects of interest to the Legal and Trust communities. These conferences are used widely in the tracing agency market because of the potential to network with the big clients that have the customer power. The objective of attending these conferences then is to obtain as many leads as possible to build relationships with key customers.

Finally, the web is another tool widely used by tracing agencies to pull customers into their services. The websites tend to be simple and just a reference tool to help potential clients to easily contact the tracing agency. This means then that most tracing agencies do not use the website as a CRM vehicle.

### **2.2.3 Search Details Formalization and Quotation**

After the client has decided to do business with the tracing agency, the Sales staff works on obtaining as much information from the client as possible relating to the lost individual in order to provide the client with an accurate estimate of the cost of the search and to improve chances of success in finding the person that needs to be found. Obtaining the right information that will greatly contribute to the success of the search is crucial. It is evident then that this activity directly impacts KSFs numbers three and four in table 2.1.

### **2.2.4 Research**

In the Research phase, the tracing agency uses the information available and combines it with databases, expertise and leads to find the lost individual. The objective of the Research activity is to provide accurate contact information to the clients to enable them to execute their duties. Clients also expect to get this information as quickly as possible. This activity is related to



the KSFs numbers two, three, four and five in table 2.1. An experienced Research department can come up with recommendations to enhance or develop new tracing services. Also, a good Research team will produce accurate information as quickly as possible. This then should result in a satisfied, loyal customer.

### **2.2.5 Delivery of Report, Invoice and Accounts Receivables Process**

Once the Research is completed, the tracing agency generates the final report with the results of the search as well as the invoice that goes with the report. Once the invoices have been received by the client, the tracing agency focuses on collecting the invoices in order to avoid as much as possible considerable amounts of money in accounts receivables. So this means that this activity is related to the KSFs numbers four and five in table 2.1. A proper follow up of past due invoices may avoid unsatisfied or annoyed customers, thus increasing retention. This phase of the Value Chain, if conducted properly, will also expedite the reception of the final report by the customer.

### **2.2.6 Post Report Client Service and Feedback**

This activity is clearly related to the KSF number five in table 2.1. Most tracing agencies in the industry, through their Telemarketing teams, obtain relevant information on customer satisfaction as well as leads that may generate future repeat business from the client.

Now that the relationship between the KSFs and the Value Chain activities has been established, a numeric model can be built to show the quantifiable relationship between all these variables. By once again using information that RW Tracers has obtained from its customers, the estimated relationships are as shown in table 2.2. The percentages in table 2.2 represent the level of contribution to the KSFs of each Value Chain activity. For example, the KSF “Get first to the big consumer via intensive Marketing” contributes to the success of a tracing agency in nineteen percent. This percentage completely depends on the Sales and Marketing activity of the Value

Chain. In the case of the KSF “Produce accurate tracing information that solves the client’s problem”, which contributes 27 percent to the success of a tracing agency, three percent comes from the “Search Details Formalization and Quotation” activity of the Value Chain, and 24 percent comes from the Research Activity. Table 2.2 is the benchmark that will be used to grade RW Tracers against its competitors in the next section of this document.

**Table 2.2 Contribution of Value Chain Activities to the KSFs.**

		VALUE CHAIN						TOTAL	
		R & D Service Development	Sales And Marketing	Search Details Formalization and Quotation	Research	Delivery of Report, Invoice and Accounts Receivables Process	Post Report Client Service and Feedback		
KSFs	1	Get first to the big consumer via intensive marketing		19%				19%	
	2	Ability to innovate and tailor products according to the customers needs	11%		3%			14%	
	3	Use an optimum number of research tools that have the required information				10%		10%	
	4	Produce accurate tracing information that solves the client's problem			3%	24%		27%	
	5	Deliver the results expeditiously			1%	4%	3%	8%	
	6	Generate loyalty in the consumer		3%		10%	2%	7%	22%
<b>TOTAL</b>			11%	22%	4%	51%	5%	7%	100%

### 2.3 Competitive Analysis

For the purpose of this analysis two key competitors will be used. These are their brief profiles.

SR Tracers has been in the tracing business for almost 35 years. This means that they started just before RW Tracers and have been a direct competitor for a long time. Their strategy

since inception was clearly differentiation. Using the same Michael Porter's model used to analyse RW Tracers' strategy, this would be the picture of SR Tracers:

**Figure 2.3 SR Tracers Strategy Map.**



This competitor came up with some products of its own before RW Tracers did. They continuously invested in R & D and update their service offerings. This does not mean that they did not copy the products developed by RW Tracers; but still, they have continuously innovated the tracing services industry. This is also a family owned company so the structure is completely centralized. Because of this, they do not have full autonomy in their decision making process. They use Marketing efforts that are more targeted and directed to build close relationships with the big clients in the industry. Their capital structure is a 100 percent private without any leverage from financial institutions.

By looking at figure 2.3 it can be concluded that this company is very close to having a 100 percent strategic fit. RW Tracers knows that SR Tracers has twice as many sales. RW Tracers also knows that the Profit Margins are higher than RW Tracers' profits because the other company charges more money for its services. SR Tracers even gets to the point to tailor its pricing depending on the requirements of the search and not only the response time. Speed in

finding the lost individuals is estimated to be the same as the one RW Tracers has; however, RW Tracers has solved cases in the past that SR Tracers could not. Because of this, RW Tracers estimates that SR Tracers' quality is lower.

GLB Tracers has been in the tracing business for almost thirty years. This means that they started right after RW Tracers and have been a direct competitor for a long time. Their strategy since inception was clearly cost based. Using the same Michael Porter's model used to analyse RW Tracers' strategy, the picture of GLB Tracers is shown in figure 2.4.

This competitor dedicated all its efforts, and it still does, to copy everything that RW Tracers did, including the company's logo. They are fast followers that do not invest in R & D because they follow others. This is also a family owned company so the structure is completely centralized. Because of this, they do not have autonomy in their decision making process. They use the same Marketing efforts that RW Tracers is using right now, meaning, a push strategy. Their capital structure still includes some leverage.

**Figure 2.4 GLB Tracers Strategy Map.**

	Cost Based Low Cost / Adequate Quality	Differentiation High Quality / Adequate Cost
Product Strategy	Rapid Follower	Innovative
R & D Expenses	Low R & D	High R & D
Structure	Centralized	Decentralized
Decision Making	Less Autonomy	Autonomy
Labour	Mass Production	High Skilled / Flexible
Marketing	Comparative / Push	High Cost / Pioneering / Pull
Risk Profile	Low-Risk	High-Risk
Capital Structure	Leveraged	Conservative

As shown in figure 2.4, this company is less “stuck in the middle” than RW Tracers. They have more strategic fit. However, despite of this better strategic fit, RW Tracers knows that

GLB Tracers has a lower sales volume. Profit margins are estimated to be lower than RW Tracers' profits because of the low prices that are charged to the consumer. Speed in finding the lost individuals is higher and the accuracy and success rates suffer because of this.

After understanding these two key competitors better, the logical step to take now is to compare them against RW Tracers to determine how each compares on the KSFs and where the opportunities and threats are for RW Tracers. This information will later be used to craft the new strategy for RW Tracers. Using table 2.1 from the previous section and applying a scale from five to one, being five excellent performance and one terrible performance, and using the above two key competitors as benchmarks, the following grading scale is obtained:

**Table 2.3 Competitor Benchmark Grades.**

	SR Tracers	GLB Tracers	RW Tracers	SR Tracers	GLB Tracers	RW Tracers
Get first to the big consumer via intensive marketing	3	2	2	0.57	0.38	0.38
Ability to innovate and tailor products according to the customers needs	4	2	2	0.56	0.28	0.28
Use an optimum number of research tools that have the required information	5	4	5	0.50	0.40	0.50
Produce accurate tracing information that solves the client's problem	4	3	5	1.08	0.81	1.35
Deliver the results expeditiously	4	5	4	0.32	0.40	0.32
Generate loyalty in the consumer	3	1	2	0.66	0.22	0.44
<b>WEIGHTED GRADE</b>				<b>3.69</b>	<b>2.49</b>	<b>3.27</b>

Table 2.3 shows the grade each company has on each one of the KSFs. The table also shows the weighted grade per company. This weighted grade was obtained by multiplying each

grade by its corresponding contribution factor according to table 2.1. By looking at the above table, it can be concluded that RW Tracers can be considered the second best company mainly due to the ability to solve the client's problem. However, it is also obvious that KSFs one, two and five seem to be the areas of concern. This means that innovating products as well as acquiring and retaining customers are a problem for RW Tracers. The biggest threat for RW Tracers is SR Tracers because table 2.3 also shows that GLB Tracers' cost based strategy is a failure and thus, RW Tracers' drift in that direction has caused the performance issues. Specifically, the following analysis looks at the threats derived from SR Tracers.

Unlike SR Tracers, RW Tracers' telemarketers are not well trained to sell products since in the past they had mainly been confirming addresses of the contacts in the database. This means that these telemarketers are not real telemarketers; and because of this, Telemarketing is an area of poor performance that could be improved considerably.

Another differentiator from SR Tracers is that RW Tracers' telemarketer does not conduct periodic calls in order to build relationships with the customers either. The fact that SR Tracers has a good customer relationship building Telemarketing is a major threat to RW Tracers.

A constant advertising effort is conducted throughout the year in the Legal and Trust community magazines where RW Tracers details its services. Even though the response to the ads has been moderate, the advertising efforts can be improved by a more strategic selection of the publications according to their relevance to the target market.

RW Tracers also attends five key conferences that are meant to inform and train people in the Legal and Trust communities. The company conducts raffles and gives away premiums in order to attract potential customers. The objective is to get as many leads as possible. Historically, RW Tracers has been successful in acquiring good responses from these events. However, this is not enough to offset the negative impact of the other Marketing and Sales activities.

RW Tracers also uses its website to generate incremental business; however, this tool has not been optimised given that it is only completely informational. The website could improve its relevance to the sales component dramatically if it were used as a service tool too. The way to do this is by allowing the client to obtain quotes immediately instead of just submitting a quote request. This will definitely affect the customers decision process since some clients are currently driven away from the purchase simply because they have to wait up to a day to obtain the final quote.

When compared against SR Tracers, the “Search Details Formalization” and “Quotation Activity” in RW Tracers can definitely be improved given that constantly the company has to go back and forth with the client in order to obtain the correct information. The lack of training of the Sales staff makes it difficult to get all the necessary information to quote more accurately. The process followed to produce the quotation can also be improved since it is very manual and time consuming. However, overall, RW Tracers has better performance than its competitors in this activity of the Value Chain.

Research is clearly RW Tracers’ core competency. The first step is to use the information the client provided to generate leads that may result in a successful approach to solve the case. Once a clear lead is identified, the Research department goes through a complex process of checking public records, databases, books, newspapers, census records and other sources to find the person that needs to be located. In this process, RW Tracers’ Research department obtains records and documentation that will provide proof of the results achieved throughout the Research process. Depending on the complexity of the search this process can take from a few hours to a couple of months. In most cases (above ninety percent of the time), RW Tracers finds the lost person. Approximately fifteen percent of the Research is outsourced to external researchers. These are Certified Private Investigators that are subcontracted to provide leads or records required to complete the search that internal researchers are unable to get due to language,

time, and legal and location limitations. This process is what makes us different to many competitors. RW Tracers uses knowledgeable researchers that were pioneers in the Tracing Industry. Quick and insightful determination of the primary lead is the key in this business to solve the case quickly and efficiently (without incurring in unnecessary costs). This is what makes RW Tracers better than most tracing agencies since time has shown that RW Tracers can find lost individuals that others cannot. The company has done this for hundreds of customers.

In RW Tracers, once Research has completed the search, a report containing the details of the search (procedure followed to find the person) is produced. Copies and original documentation obtained by RW Tracers to prove that the person has been located are appended to the report. The report sent to the client could be improved to make it more reader friendly. The report is then sent via mail to the client with an invoice. Sending the report and the invoice are outsourced activities contracted with the US Postal Service, DHL, Fedex and other courier companies in order to expedite and ensure timely reception of the documents for customers. The reason for using mail to deliver the reports is primarily due to size and weight considerations since some of the reports may end up being several hundred pages long. After the client receives the report and invoice, the accounts receivables department follows up on the invoices. If customers have invoices that are past due (more than thirty days since the invoice date), a statement is sent via mail to remind the client that the amount shown is due. Calls to these clients are also conducted in-house to make sure the client received the statement and to reinforce the sense of urgency on the payment. When compared with SR Tracers, this process currently is considered a weak effort in collecting outstanding invoices given that the resource allocated to conduct the calls is not trained as a professional collector. The junior administrator conducting the calls is not dedicated to the collection activity and the available time is shared with other duties.



Finally, in the Service phase at RW Tracers, if the invoice is not due, then a “Love Call” is made to the client to make sure the search solved the customer’s problem. The idea behind the “Love Call” is to measure customer satisfaction and to explore the possibility of future business with the client. Currently, the “Love Call” process is poor due to the lack of training in the Sales Representatives that make the phone call. This process can be considerably improved by properly training the Sales Representatives. The confirmation letter is part of the service and in this letter the Research Department confirms that Research has been completed. This letter is sent via mail, fax or email to the client.

In summary, after analysing RW Tracers’ Value Chain activities against SR Tracers, it is obvious that RW Tracers is a competitive tracing agency mainly due to its core competency (Research). However, the rest of the activities in the Value Chain can improve considerably since all of them are below SR Tracers except for the process related to delivering the results expeditiously. Graphically, and using the same model that was shown in table 2.2, this summary can be represented as shown in table 2.4.

The three tables shown in table 2.4 were obtained by multiplying for each company the grades in table 2.3 by the contribution percentages in table 2.2. The figures in table 2.4 are by the author of this document. The three tables in table 2.4 show the grades each company gets on each one of the Value Chain activities according to their contribution to the KSFs. For example, in the case of a perfect firm, the grade for the KSF “ability to innovate and tailor products according to the customers needs” would be five. By multiplying five times the R & D Service Development contribution percentage of table 2.2, the grade obtained for this perfect firm for R & D Service Development would be .55. This means that SR Tracers does not have a perfect R & D Service Development because its grade is .44 (four times eleven percent). However, SR Tracers has a better R & D Service Development than RW Tracers because this grade for the company is .22 (two times eleven percent).

Table 2.4 Value Chain Grades.

**SR Tracers**

			VALUE CHAIN						TOTAL
			R & D Service Development	Sales And Marketing	Search Details Formalization and Quotation	Research	Delivery of Report, Invoice and Accounts Receivables Process	Post Report Client Service and Feedback	
<b>KSFs</b>	1	Get first to the big consumer via intensive marketing		0.57					0.57
	2	Ability to innovate and tailor products according to the customers needs	0.44			0.12			0.56
	3	Use an optimum number of research tools that have the required information				0.50			0.50
	4	Produce accurate tracing information that solves the client's problem			0.12	0.96			1.08
	5	Deliver the results expeditiously			0.03	0.16	0.13		0.32
	6	Generate loyalty in the consumer		0.09		0.30	0.07	0.21	0.67
<b>TOTAL</b>			<b>0.44</b>	<b>0.66</b>	<b>0.15</b>	<b>2.04</b>	<b>0.19</b>	<b>0.21</b>	<b>3.70</b>

**GLB Tracers**

			VALUE CHAIN						TOTAL
			R & D Service Development	Sales And Marketing	Search Details Formalization and Quotation	Research	Delivery of Report, Invoice and Accounts Receivables Process	Post Report Client Service and Feedback	
<b>KSFs</b>	1	Get first to the big consumer via intensive marketing		0.38					0.38
	2	Ability to innovate and tailor products according to the customers needs	0.22			0.06			0.28
	3	Use an optimum number of research tools that have the required information				0.40			0.40
	3	Produce accurate tracing information that solves the client's problem			0.09	0.72			0.81
	4	Deliver the results expeditiously			0.04	0.20	0.16		0.40
	5	Generate loyalty in the consumer		0.03		0.10	0.02	0.07	0.22
<b>TOTAL</b>			<b>0.22</b>	<b>0.41</b>	<b>0.13</b>	<b>1.48</b>	<b>0.18</b>	<b>0.07</b>	<b>2.49</b>

**RW Tracers**

			VALUE CHAIN						
			R & D Service Development	Sales And Marketing	Search Details Formalization and Quotation	Research	Delivery of Report, Invoice and Accounts Receivables Process	Post Report Client Service and Feedback	TOTAL
KSFS	1	Get first to the big consumer via intensive marketing		0.38					0.38
	2	Ability to innovate and tailor products according to the customers needs	0.22			0.06			0.28
	3	Use an optimum number of research tools that have the required information				0.50			0.50
	4	Produce accurate tracing information that solves the client's problem			0.15	1.20			1.35
	5	Deliver the results expeditiously			0.03	0.16	0.13		0.32
	6	Generate loyalty in the consumer		0.06		0.20	0.04	0.14	0.44
<b>TOTAL</b>			<b>0.22</b>	<b>0.44</b>	<b>0.18</b>	<b>2.12</b>	<b>0.17</b>	<b>0.14</b>	<b>3.27</b>

By looking at the numbers above, it is clear that RW Tracers could improve in most of the Value Chain activities, focusing primarily in the activities of R & D, Sales and Marketing, and Post Report Client Service and Feedback in order to better compete against SR Tracers. As mentioned earlier, SR Tracers is the real threat and not GLB Tracers. The only advantage that GLB Tracers has versus RW Tracers is the speed on delivering the report due to its cost based strategy. The above information will be used in the next section of this document to develop a proposed strategy for RW Tracers that will address their needs.

## 2.4 Proposed Strategy

Opposed to the existing “stuck in the middle” strategy that RW Tracers has adopted, a Differentiation strategy is the one recommended in this document. This strategy is recommended because it seems to be working best in the tracing market. As discussed in the previous section, SR Tracers is closer to the decision criteria of RW Tracers’ top managers (sales growth and

higher profit margins). As discussed in the previous section, the differentiation strategy has proven to be more efficient and competitive than the cost based strategy adopted by GLB Tracers. This means that RW Tracers needs to differentiate itself from the rest of the competitors as the most accurate, reliable and fast tracing agency. Using the information derived from the KSFs analysis, the strategy is as follows:

- a) Improve the weak Marketing efforts in order to bring in the big customers into the company by convincing them that RW Tracers is the most accurate, reliable and fast tracing agency.
- b) Invest in R&D to develop better-tailored services as opposed to products for the customers.
- c) Invest in enhancing the post service process in order to guarantee customer loyalty.

Specifically, for each one of these initiatives these are the strategic recommendations:

#### **2.4.1 Improve the weak Marketing efforts**

The first step is to create a new brand image that will allow the company to differentiate itself from the competitors. Since RW Tracers was the pioneer in this industry, many of its competitors copied and only slightly modified the logo and slogan. To be different, the image needs to be different. As Al Ries and Jack Trout (1985) have cited, the company has to have a special position in the consumer's mind because right now RW Tracers looks similar to its competitors. Re-branding by giving the existing image a fresher look is the first step to improve Marketing. The company needs to have something different to say before communicating with its costumers.

The second step is to communicate the new image to the target audience (Trust and Legal institutions). In order to do this, the company can use vehicles like Direct Marketing but it is

extremely important to invest in building strong tight relationships with the big customers. Relationship building is clearly a differentiation strategy element. Through these efforts, RW Tracers will pull the big customers into its services and products.

In order to build tighter relationships with the big clients, Customer Relationship Management (CRM) needs to be implemented. CRM, as defined by the American Teleservices Association (2003) in their website, is “the strategies, processes, people and technologies used by companies to successfully attract and retain customers for maximum corporate growth and profit. CRM initiatives are designed with the goal of meeting customer expectations and needs in order to achieve maximum customer lifetime value and return to the enterprise. As a primary sales, service and retention touch point for many companies, the Contact Centre is a critical component of a successful CRM strategy.” So, this means that sales and retention issues as well as product development can be achieved through CRM. Tailoring products through understanding the client’s needs in order to maximize Customer Lifetime Value is a key component of a differentiation strategy.

#### **2.4.2 Product Development**

This strategy is directly linked with Marketing. As mentioned in the previous section, RW Tracers needs to invest in CRM in order to listen to the customer’s need to develop better service options that will give them speed and accuracy, thus increasing the Customer Lifetime Value. Times have changed considerably since RW Tracers listened to its customers. Are the typical ten, thirty and ninety day searches good enough? It is very unlikely. With new emerging technologies, requirements and expectations must have experienced change. These technological changes should also benefit RW Tracers. There is a huge potential to come up with quicker and more accurate searches. The steps for this part of the strategy are, first, to conduct proper market

Research to understand the current needs of the big customers to then use the new technology to address such needs. In offering new, different products, differentiation is achieved.

### **2.4.3 Enhance Post Service Process**

In order to enhance the post service process, RW Tracers needs to spend more time in what they call the “Love Call”. The company needs to better understand what it is that satisfies the customers and what should be improved next time. This process needs to become the key retention step for the company. RW Tracers needs to get more formal commitments from satisfied clients. If all the other preceding procedures were managed properly, this is the best time to talk to the customer and build good relationships to guarantee future business.

In summary, the proposed differentiation strategy is to build close relationships with the big customers so that, through the use of CRM, RW Tracers can design new and innovative services that will be effectively marketed through the use of a new, differentiated image where accuracy and speed are the key selling points.

The above strategic alternative sounds interesting; however, there is a question that immediately comes into mind after reading such initiatives. Can it be implemented within the RW Tracers organizational structure and framework? In order to answer this question it is necessary to analyse the company’s internal environment. This will be done in the following chapter of this document.

### **3 INTERNAL ANALYSIS**

The company's structure was previously shown in figure 1.1. RW Tracers is a medium sized company with 73 employees. In order to conduct a more detailed analysis of the internal environment, Crossan, Fry and Killing's (2005) Diamond – E framework will be used.

#### **3.1 Management Preferences**

In order to determine if the strategy is in line with the strategic preferences of the key decision makers in RW Tracers, it is important to analyse three aspects of the management preferences.

##### **3.1.1 Decision Criteria**

As indicated earlier in this document, the decision criteria that the senior managers of RW Tracers will use to support or reject a strategy are sales growth and profitability. So, the big question in this section is: Is there a gap between the proposed strategy and the decision criteria of the key decision makers? The answer to this question will be found later in chapter four since all the financials will be conducted there when specific recommendations are detailed with revenues and costs. However, with the analysis conducted so far, there are some indications that it is possible that the strategy will comply with the decision criteria. Given that in the previous chapter, evidence showed that a differentiation strategy seems to work better than a cost based strategy, it seems to be reasonable to expect that performance may improve for RW Tracers by adopting a differentiation strategy that already worked for them in the past. As mentioned earlier in chapters one and two, the reason why the shift happened was because the President and CEO of RW Tracers created a new collections agency that required of RW Tracers' services. This

caused the tracing agency to become more of a selected sole service provider for the new company, being paid on internally generated transfer pricing costs instead of a competitive tracing agency within the marketplace. Prices had to remain fixed so that costs to the new organization would not increase. Because of this, costs had to be kept to the minimum for RW Tracers, thus moving indecisively towards a cost based strategy. Now that the President and CEO as well as the General Manager have decided to become competitive again and go after the external market due to the performance issues discussed earlier, the change in strategy makes sense. In order to achieve this RW Tracers needs to move towards its roots. These roots (differentiation) are the ones that made RW Tracers a successful entrepreneur. The initiatives proposed in the strategy earlier seem to be compliant with the criteria that key decision makers have. This can be inferred by the fact that SR Tracers, through its differentiation strategy, seems to already be achieving sales growth and higher profit margins. It remains to be seen, later in this document, in the recommendations section, if the financials will demonstrate that the estimated incremental sales and profit margins satisfy the specific criteria of the key decision makers described earlier in this document.

### **3.1.2 Capabilities**

The existing CEO of the company and the General Manager have a vast knowledge of the industry and experience that can be used to give direction to the organization. Both individuals started the business together and have developed it into a successful venture over the past 35 years. However, their background is mostly in staff management and Research and not in Marketing and Sales. They both became managers through experience when the business started to grow and they had to hire more employees. So, in other words, these skills were developed through experience. So they are not really familiar with the new business concepts of cost-based vs. differentiation theory and how to apply these in practice.



Before the company reached a size where employees became responsible for production, the managers themselves would be the ones doing everything in the organization. They would call the clients, get the orders and then conduct the Research. Both managers were strong in Research. Despite the fact that they did some Marketing and Sales, they did not dedicate a lot of time to these activities since the Account Manager was hired to take over these responsibilities. Because of this, it can be said that the skills required to implement the strategic alternatives proposed earlier in this document were never fully developed. Thus, the first weakness and a gap generator is:

- Lack of Marketing and Sales knowledge and experience.

The above weakness directly impacts KSFs: get first to the big customer via intensive Marketing, and generate loyalty in the consumer. The Account Manager, as described earlier in this document, more than acting as a sales professional, is in actuality more of an address verifier, which cannot be considered as Marketing. Obviously, this is an odd combination of sales and clerical tasking. Because of this, it is evident that the Account Manager is not a good fit for the new strategy either. Given the centralization of decision making there is no Marketing expert that participates in decision making, so it will be hard to implement the Marketing parts of the proposed strategy. However, despite the lack of Sales and Marketing skills and the centralization of decision making, it is important to note that the skill gap can be closed because the key decision makers are willing to make the investment to address this weakness. They want sales and profits to grow by shifting from focusing so much on the new business that the President and CEO created. Both managers have also expressed their interest in bringing in permanent talent from outside that will continue to grow the business constantly. Both are willing to hire another manager and have the Account Manager report to him. Despite the fact that there are personal friendships developed over years, such friendships are not at stake because the Account Manager

has always trusted the top two managers in the decisions they make. In the end, professionalism always prevails. The gap can therefore be closed through:

- Hiring the talent with the necessary Marketing knowledge to match the strategic requirements.

In terms of KSF two from table 2.1, ability to innovate and tailor products according to the customers needs, both managers had experience in the past. Their ability to create innovative products paid off. The reason why the innovation stopped was because the existing products were good enough to satisfy the new collection agency's requirements. Despite this situation, there is no gap with the proposed strategy because it is assumed that the ability to innovate is still there. However, this doesn't mean that this KSF cannot be improved. Technology has changed since products were last created and there are new and more efficient ways to conduct Market Research to come up with better products. As mentioned earlier, both top managers are willing to make the necessary changes to go after the market that has not been touched recently. The permanent talent that could be brought into the organization should also bring in new Marketing Research skills to assist in the development of new services.

In terms of KSF three, producing accurate tracing information that solves the client's problem, as mentioned earlier, both managers are experts. This is their primary strength. They gave support to most researchers and made them excellent at what they do. It can be assumed that this strength is still there since RW Tracers has been producing excellent results for the President's new company.

RW Tracers' top managers have a capability gap with the new strategy. This gap is the lack of Marketing and Sales knowledge and experience. However, hiring talent with the necessary Marketing and Sales knowledge to match the strategic requirements can close this gap.

Hiring this new talent will not conflict with the top managers' interests. The reason for this is that both managers are willing to hire another manager and have the Account Manager report to him.

There do not seem to be other gaps with the new strategy in other areas since the top managers' innovation capabilities are still there and only need to be improved through Market Research conducted by the new Marketing and Sales Manager.

### **3.1.3 Mind-sets**

Historically, in RW Tracers, Marketing has been considered as a necessary activity done with the lowest amount of investment because managers placed a lot more importance to Research than to Marketing and Sales. Mostly, Marketing was approached more as an expense instead of an investment that would generate sales. So, it can be said that the first gap in this section is:

- There is a historical mid-set where Marketing has been seen more as an expense than an investment.

Even the words "Love Call" tend to indicate that there is an implicit bias that affects how relationship Marketing is seen. However, it makes sense to expect that having the new Marketing oriented talent at a management level do the following will close the gap:

- Achieve buy-in from other employees in the organization. Specifically, the control that the new manager will have over the Account Manager and other employees with considerable tenure can be leveraged to influence the top managers' mind-set.
- Bring in opinions from external consultants such as an advertising agency who can provide substantiated experiences of results achieved through Marketing efforts in similar industries.

- Conduct formal Market Research and Competitive Analysis to demonstrate that competitors with heavier Marketing investments have a better Top of Mind and Share of Mind.

After all, as shown earlier in the competitive analysis, differentiation seems to be more efficient than a cost based strategy in this industry. Minimizing Marketing expenditures is definitely a cost based strategy and this is what RW Tracers should move away from in order to compete more directly with SR Tracers. In the minds of the top managers, results in an organization cannot change if everything remains static. The managers are open to the change that needs to take place since they believe that the weakest area in the organization is Sales and Marketing and not Research. The keys to the mind-set change are substantiated data that shows the advantages of Marketing and the top managers' strong will to change.

In terms of the need to generate new products and innovate, the mind-sets of the top managers could generate a gap with the new strategy, which is:

- Because of the centralized decision making process and the lack of autonomy, they used to be the ones to innovate during the initial years of life of the organization and now the new Marketing Manager would also be involved in the process.

Innovation itself is not the problem because there is no evidence that innovations stopped due to a change in the mind-set of the top managers. There is no indication that they ever believed that innovation was a bad practice. Innovation stopped because RW Tracers' efforts were focused differently. As the focus will now be shifted to a willingness to change, innovation will be undertaken as a necessary project because that is how it used to be before the strategic shift. The potential solutions for closing the gap are to have the Marketing Manager:

- Conduct formal Market Research and Competitive Analysis to obtain quantifiable data on products that need to be developed to compete and to satisfy the market's needs.

RW Tracers' top management has shown a tendency to manage the business according to available data supporting specific decisions. This is the reason why it seems logical to expect that such data will serve the purpose to close this gap.

Summarizing the above section, there are two gaps related to mind-sets. The first one is a historical mind-set where Marketing is seen more as an expense than an investment. Having the new Marketing and Sales Manager get buy-in from other employees in the organization may close this gap. The gap may also be closed if the Marketing Manager brings external expert opinions on Marketing and through Market Research efforts.

The second gap is that there may be resistance from top management in having the new manager contribute to the innovation process because of the centralized decision making process and the lack of autonomy. However, this gap may be closed by having the new manager present quantifiable data through Market Research that will show the added value of Marketing applied to innovation and product development.

## **3.2 Resources**

For the purposes of this document, RW Tracers' resources have been divided into three main areas: Financial, Human and Technological. In this section, these resources will be analysed to determine the potential gaps with the proposed strategy.

### **3.2.1 Financial Resources**

This is one of the most positive aspects to this project. The President of RW Tracers, as well as the company's General Manager have stated that they have the financial resources to

support any strategies or initiatives that are sound and that are proven to contribute to their decision criteria. Specifically, the funds available are \$500,000. This is the amount available for investment in closing the gaps predicated on a sound strategy being established. As mentioned earlier in this document, it still remains to be seen in chapter four if this amount will be sufficient to properly carry out the recommended strategy. There could be a gap here that cannot be closed since both top managers have this figure as the limit of the investment. As mentioned earlier, if the funds are not enough, this gap could not be filled because leverage is not an option since the company has worked hard to get out of that position and an IPO is not in the plans either, due to the loss of control and power that going public would represent. Later, in chapter four, recommendations will be made as to how to close the other gaps found in this document with the available funds and financials will be presented to demonstrate if this gap can be closed or not.

### **3.2.2 Human Resources**

As mentioned earlier in this document, there is a lack of overall Marketing and Sales proficient knowledge to address the deficiencies related to KSFs one and six. As mentioned earlier, RW Tracers will need a senior Sales and Marketing person who will be included in senior management discussions. This new person will set up a department and make sure the people who work there are both qualified and running on track towards appropriate targets. The existing personnel do not appear to have the skills necessary to bring in the big clients. The Sales and Marketing Manager will have to be brought in order to close this gap and to contribute to the development of new products through Market Research. As mentioned earlier in this document, the human resources will have to be acquired. Later, in chapter four, a specific recommendation including financials will be made to close this gap taking into consideration the financial constrain mentioned in the previous section of this document.

The above is the product of having a clear gap in RW Tracers' human resources which is:

- The existing Account Manager does not have the knowledge or training to properly build relationships with the customers. In order to improve the loyalty of customers, RW Tracers needs to close this existing gap with the new strategy. This gap is the one that exists at post service level.

Currently, the Account Manager in charge of key decisions lacks the Marketing and Sales training to continue to build the relationship with the client, get commitment for the next sale, and evaluate the satisfaction level of the client. After all, the Account Manager is more an address verifier that basically asks the client if the address is current and if there is something that we can do for them. This is a very passive approach to sales and retention. There are two ways to close this gap:

- The first is to use the talent acquired in Marketing and Sales to train the existing Account Manager, who would report to the Sales and Marketing Manager, on how to build relationships with the clients. The new talent would train the existing Account Manager for the necessary skill to close a sale proactively and to obtain face-to-face interviews for the Sales Manager with the clients so that the sales can also be closed. This new talent would also train the Account Manager in how to retain customers by obtaining face-to-face interviews that will allow for relationship building (loyalty). The Account Manager would receive the necessary training and sales background in order to obtain more future business commitment from the customers.
- The second option is, if for some reason the new talent realizes that the Account Manager cannot develop, the required skill set shown on table 3.1 to build relationships with the customer, it would be the new talent's responsibility to replace the Account Manager with one or more individuals with the right skill set. Obviously, this is not the preferred course of action of the top managers because of the

relationship built with the Account Manager after almost thirty years. However, top management has expressed that they are open to these types of staff changes that the new manager could bring. Top management hopes that the first option will work; but they will accept the second alternative if the Marketing and Sales Manager builds a case supported with facts.

The problem with the Account Manager derives from the fact that he has a set of skills that does not match the required skills as shown in Table 3.1.

**Table 3.1 Account Manager Skill Set Analysis**

Required Skills	Current Skills
Ability to build strong relationships with the customer that result in repeat business.	
Generates sales by proactively contacting existing clients to reintroduce and/or resell the client on the product(s), value, and methodologies.	Generates sales by reactively waiting for the phone to ring.
Ability to verify addresses	Ability to verify addresses
Warm and cold call selling in a call-center environment.	
Minimum 2 years selling in a call center environment	
Appealing telephone personality	Appealing telephone personality
Clear Communication skills	
Ability to establish sales calls and close sales quote with clients	
Motivated, energetic person, able to work independently	
Ability to interact with clients in a confident, competent manner	
Strong, accurate data entry skills	
Ability to perform basic math skills for quote preparation	Ability to perform basic math skills for quote preparation

The above table shows in red the skill requirements that are not being met by the current Accounts Manager. The green boxes show the skills that match the requirements. The above table shows that most of the skills required are currently not being met.



As discussed earlier in this document, a definite strength of RW Tracers Human Resources is the Research Department. This area will continue to be the core competency under the new strategy and there are no gaps in this area. The reason for this is that the Research department has the skills shown in table 3.2:

**Table 3.2 Research Department Skill Set**

<b>Current Skills</b>
Ability to identify search solving leads
Insight to determine the starting point of a search to solve it as quickly as possible
Considerable training conducted by the top Managers, pioneers in the business
Certification as Private Investigators
Problem solving in order to draw conclusions for the search
Clear Communication skills
Details oriented
Motivated, energetic person, able to work independently

In relation to the R&D that needs to take place in RW Tracers, the new Marketing talent would play the key role. Despite the fact that the key decision makers have been successful in the past in creating innovative products, currently the company does not have the knowledge as to how to conduct proper Research. This means that there is a gap here, which is:

- Lack of resources with knowledge in Market Research to conduct proper product innovation.

However, this gap can be closed by:

- Hiring the talent with the necessary Marketing knowledge to match the strategic requirements.

This is why acquiring new Marketing skills would also solve this problem. This new resource would work on developing surveys that the newly trained Account Manager(s) will conduct. The information obtained could be used to develop new service alternatives that will better satisfy existing needs in the customers.

Another definite strength for RW Tracers is its IT department. This area was the one responsible of the existing Research software the company uses. As a group, the IT staff is a strength for RW Tracers that has the necessary skills to support most IT decisions the company makes. Specifically, the skills of the area are the ones shown in table 3.3. Through a Steering Committee and with the involvement of top management, the IT department can definitely be a considerable asset for the implementation of new technological initiatives discussed in the next section of this document.

There is one gap between the IT department and the proposed strategy and this is as follows:

- The lack of web environment coding knowledge.

The application that was developed to support the remote tracers had to be built by a consultant because the skills are absent in the RW Tracers' IT department. This is related with a weakness explained in the next section of this document. This affects the strategy of acquiring big customers and retaining them because, as discussed earlier in this document, a new more interactive and user friendly website is needed. The reason for this is that new big customers are turned away from RW Tracers when they have to ask for a quotation via the Internet and wait 24 hours to get it instead of receiving the quote immediately.

**Table 3.3 IT Department Skill Set**

<b>Current Skills</b>
Strong Project Management
High quality development of customized applications in Visual Basic and SQL Server Databases.
Knowledge of database design and architecture
Efficient support staff
Good implementation of off the shelf software

The website also affects loyalty through offering poor service via a limited functionality that does not allow the user to check on the progress of the search or to download the reports easily. However, the recommendation as to how this gap can be closed is discussed later under the Technological Resources section.

In summary, three gaps have been identified in this section. The first one is that the existing Account Manager does not have the knowledge or training to properly build close relationships with the customers. This gap can be closed, if the Account Manager's skill set allows through training via the new Marketing and Sales Manager. If the skill set does not allow this training, the Account Manager will have to be replaced.

The second gap is that there are no resources available with knowledge in Market Research to conduct proper product innovation. However hiring the Marketing and Sales Manager with the necessary Marketing knowledge to match the strategic requirements can close this gap.

Finally, the third gap is the lack of web environment coding knowledge that hinders the customer acquisition and retention efforts on line. There is a recommendation to close this gap described in the Technological Resources section of this document.

### **3.2.3 Technological Resources**

One of the recommendations of the new strategy is to implement CRM. As mentioned earlier, CRM as defined by the American Teleservices Association (2003) in their website, is “the strategies, processes, people and technologies used by companies to successfully attract and retain customers for maximum corporate growth and profit. CRM initiatives are designed with the goal of meeting customer expectations and needs in order to achieve maximum customer lifetime value and return to the enterprise. As a primary sales, service and retention touch point for many companies, the Contact Centre is a critical component of a successful CRM strategy.” So this means that CRM is not a computerized system. CRM is a discipline to build long-term relationships with the customers through carefully listening to their needs. Computers are only used as tools to conduct CRM. This is why CRM is not a cost based strategy. It is a powerful differentiation strategy. In regards to RW Tracers’ capability to implementing CRM to build stronger relationships with the big clients in the organization, besides the human gap, there is also a technological gap in the company, which is the following:

- The existing system used to manage clients does not allow RW Tracers to conduct proper CRM.

This software is a proprietary Visual Basic application that uses a Sequel (SQL) Server Database. Its primary objective, when developed thirty years ago, was to comply with the Research activity requirements. It was never really intended to keep track of customer activity and develop relationships. This means that the existing software is both a strength and a weakness of the company. It is a strength because it has given the company a competitive advantage in the Research activity as mentioned earlier. The system gap or weakness is in the Sales and Marketing side. Despite of the complexity of this gap, there is an option to deal with it:

- Use the available financial resources to acquire a new CRM system to complement the existing proprietary software.

This means that new workflows and procedures need to be developed to implement this new system that will also enhance operations. Specifically, the requirements of the system to close the gap are as shown on table 3.4.

**Table 3.4 CRM System Requirements**

<b>System Requirements</b>
Account & Contact Information
Opportunity Management
Calendar & Activity Management
Advanced Outlook Integration
Sales Processes
Sales Forecasting & Reporting
Competitor Tracking
Integrated Marketing, Customer Service and Support
Back-Office Integration
Windows, Web and Wireless

The most important requirement shown in the above table is the Account and Contact information management. This will allow the company to understand each customer better. By having all the contact history available, it is then possible to profile clients and offer tailored products. From the R&D strategic standpoint, it is interesting to see how the new CRM system can also contribute significantly by eliminating redundant and manual processes to improve speed and accuracy through the back-office integration.

Another technological resource that needs enhancements is the company's website. As mentioned earlier in this document, the Marketing and Sales effort is also supported via the website and there is a gap between what currently exists and what should be the actual RW Tracers' website. The gap is the following:

- The website's functionality is very limited. Currently the website is only being used to communicate information to the customers.

Unfortunately, this is a weakness because, in today's environment, most companies use the web as a transactional platform to build relationships and improve customer service. Table 3.5 shows what the website would require to better support the Marketing and Sales efforts and close the existing gap.

However, this gap can also be closed as follows:

- Hire a consultant (an expert web developer person or agency) to build the required functionality.

In relation to the IT tools used to obtain the information necessary to solve the case, RW Tracers has a wide variety of electronic and physical databases that combined constitute a very thorough repository of information that has enormously contributed to the success obtained so far in Research. Several different databases have been tested throughout the company's history. New and old technology are constantly used, tested and replaced. After thirty years of this process, the company has been very successful in keeping the right mix to have a success rate above ninety percent.

In summary, two gaps were identified in this section. The first one is that the existing system used to manage clients does not allow RW Tracers to conduct proper CRM. Using the available financial resources to acquire a new CRM system that will complement the existing proprietary software can close this gap.

The second gap is that the website's functionality is very limited. Currently the website is only being used to communicate news to the customers. The recommendation to close this gap is to hire a consultant to build the required functionality.

**Table 3.5 Website Requirements**

<b>Website Requirements</b>
Automatic Quotation Generator
Online search status reporting
Chat capabilities to communicate directly and live with the customer
Online invoice and payment history
Online payment capabilities
Sales Forecasting & Reporting
Recommendations mail box
Automated track of referrals
Search related document submission interface
RW Tracers client email accounts
Automatic subscription to periodical electronic newsletters
Updateable customer profile

### **3.3 Organization**

From an organization standpoint, the company will have to change in order to close several existing gaps with the new strategy. These are the changes at the different organizational levels that need to take place.

#### **3.3.1 Structure**

Because the President and CEO created the new firm that required the services of RW Tracers, the tracing agency's Vision and Mission statements changed to satisfy that need. However, as mentioned earlier in this document, the Vision has changed in order to go after the big customers in the tracing market. According to RW Tracers' President the new Vision that has to be enforced is:

*"To become the leading tracing alternative for the national and international markets."*

The benchmarks that will be used to define the word “leading” in the previous statement are to have the majority of Top of Mind and Market Share. This new Vision has to be communicated to all the employees in the firm to make sure this new direction is followed. The President has also defined the following new Mission:

*“We identify and report on the true and indisputable facts to our clients in order to empower and enable them to meet their responsibilities in the best interest of their client, through our expertise.”*

Again, this new Mission has to be enforced through the changes in resources, management and systems described earlier in this document. This means that there is a gap here, which is:

- Lack of systems to implement the new Vision and Mission attached to the new strategy.

More details as to how to enforce the new Vision and Mission Statements and close this gap will be detailed under the Systems section of this document. A strength the company has that is directly linked to this change in structure is that the speed for implementing these changes is very high. The small number of employees and the centralized structure are the main reasons for the higher implementation speed.

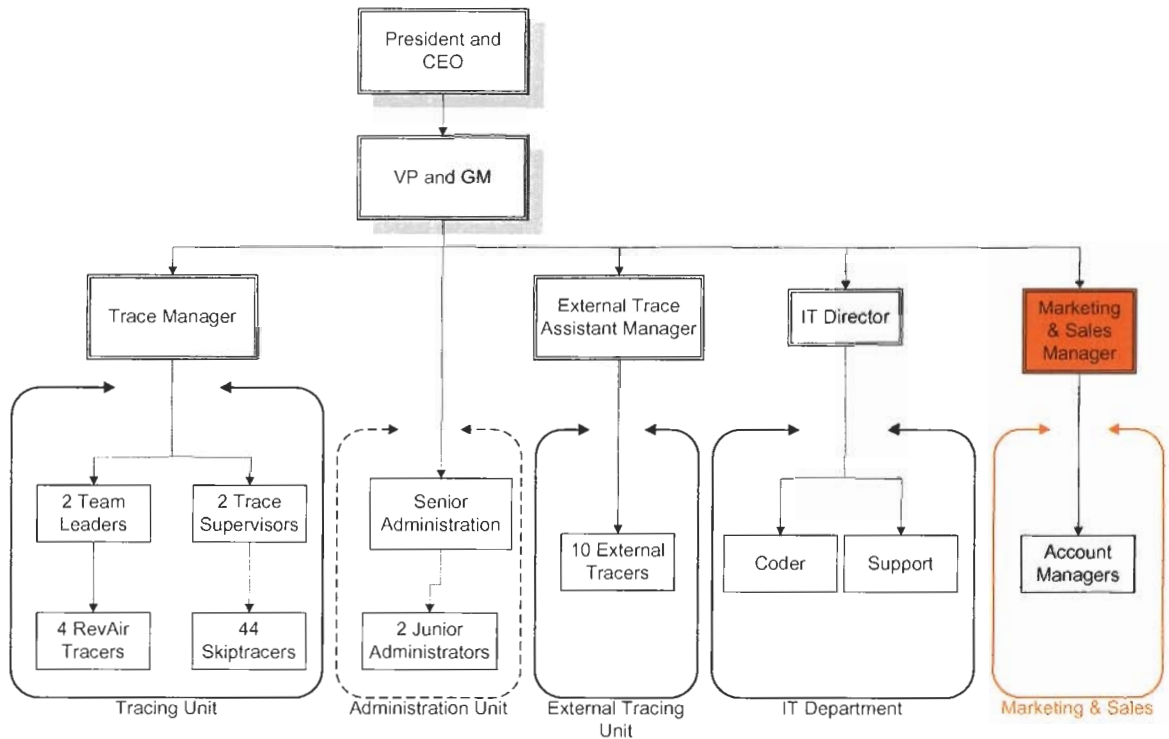
By looking at figure 1.1 and comparing that against the changes in resources described earlier in this document, it is obvious that RW Tracers’ organizational structure will need to change in order to implement the recommended strategy. The reason for this is that there is a gap with the new strategy:



- The company does not have a Marketing and Sales department to implement the recommended human resources changes.

However, adding a new department that will change the Organizational Chart as follows (figure 3.1) can close this gap:

**Figure 3.1 RW Tracers' New Organizational Chart**



The objects in orange represent the changes to the company's structure. Since Marketing and Sales need to play a more important role in the organization, it seems logical that a new area is needed.

Summarizing this section, there were two gaps found during the analysis. The first gap is the lack of systems to implement the new Vision and Mission attached to the new strategy. Enforcing the shift towards the new Vision and Mission can close this gap. Details as to how this may be done will be discussed in the next section of this document.

The second gap is that the company does not have a Marketing and Sales department to implement the recommended human resources changes. The way to close this gap is to create a new Marketing and Sales department where the new Marketing and Sales Manager is the head of the area and the Account Manager(s) report to the new talent.

### **3.3.2 Systems**

From a remuneration standpoint, it is well known that incentives systems should always be tied to performance. This has been a successful venture for RW Tracers in the Research area where individual monthly goals are defined per researcher and if these goals are met, a bonus is awarded. However, this does not mean that the existing payroll system for Researchers does not have a gap with the new strategy. As discussed in the previous section, the fact that the Vision and Mission changed should also affect the bonuses to guarantee that employees adhere to the new Vision and Mission. RW Tracers could also get input from investigators about what techniques or methods they have developed personally that could be turned into standard systems. Something like an idea box and reward the chosen ones with cash and or prestige. In the case of the new Sales department that will be created, the bonus system is non-existent so it has to be built completely. As mentioned earlier, there is a way to close the gap in the lack of systems to enforce the new Vision and Mission statements and drive performance:

- The payroll system needs to change to include performance incentives to motivate the adhesion to the new Vision and Mission statements to become the Top of Mind and have the largest Market Share. This system will also motivate innovation and individual performance.

In order to achieve successful sales in line with the key decision makers' criteria, RW Tracers will have to provide the sales staff with clear sales goals and projections supported with

monetary rewards. This way, both, the decision criteria and the Vision and Mission statements will be enforced.

Summarizing this section, the existing gap between the new strategy and the remuneration systems can be closed by creating new systems that are performance driven. It is key to monitor performance in an organization and reward the good performance.

### **3.3.3 Culture**

The overall culture at RW Tracers will have to change too. Currently, the company is used to mainly working for a sister company on a cost based strategy so there is a gap with the existing strategy:

- Employees have been used to operate under a cost based strategy so the adaptation to a differentiation strategy may be difficult.

To move to a differentiation strategy where the company will have to work for the sister company and for external clients will require a new culture. There are basically two approaches that can be undertaken to close this gap:

- Have the managers of the organization promote the new culture and get buy in from the rest of the employees in the organization through clearly explaining why the change will be beneficial for the organization.
- Use the help of Human Resources and Corporate Culture expert consultants in case the managers cannot “convert the infidels” into the new culture.
- Ultimately, those employees that do not buy-in will have to be eliminated all at once to reduce peer mind poisoning and other unhealthy activities like power struggles.

Even though changing the culture may be difficult, there is one factor that may help to considerably close this gap. This factor is employee loyalty. Expert external consultants in Human Resources, to measure the level of commitment and satisfaction of RW Tracers' employees, conducted a survey. The idea was to have the employees feel as comfortable as possible on filling out the survey. The employees were asked several questions on commitment and satisfaction anonymously in order to avoid any interest driven responses. The study concluded that both indicators are high. This could indicate that the employees will be willing to change the culture because of their loyalty to the company. The study also proved that the only aspect that could be improved was compensation and this has already been discussed earlier in this document. Employees overall feel that compensation could be better. This conclusion, as discussed by the consultants, should not generate any concerns because the employees did not say that salaries were low. The employees just said that salaries could be better; but then again, the employees in almost all companies that conduct these types of studies mention this.

Another strength is the cross-unit synergy between the different areas especially R&D and Marketing. Once again, the size and the centralized structure are accountable for this. In RW Tracers it is very easy to communicate between areas. This strength can be used to close the gaps in the structure discussed earlier in this document since good communication is key to implement the new Vision and Mission statements. This strength is also supported by yet another strength. Because of the external researchers, there is a multi-cultural environment that works efficiently. The geographic location of the organization also helps in providing RW Tracers with a wider selection of researchers from different cultures. This also contributes to solving structural gaps.

### **3.4 Summary**

In summary, there are several gaps between the new strategy being proposed and the company's internal profile. However, as analysed above, these gaps may be closed through

making adjustments at several levels including the management team, human and technical resources, and the organization's structure and culture. The objective of the next chapter is to make specific recommendations that will address the gaps and to evaluate such recommendations to make sure that they are compatible with the criteria that have been set by the decision makers for RW Tracers.

## 4 RECOMMENDATIONS

In this final chapter, specific recommendations will be made to close the gaps identified on chapter three that will also comply with the \$500,000 investment capital available.

In order to improve the weak Marketing efforts, the firm will have to hire a Marketing Manager whose qualifications are shown in table 4.1.

**Table 4.1 Marketing Manager Qualifications**

<b>Qualifications</b>
2+ years experience in the Trust or Legal industries
Bachelors degree Business, Marketing or Sales related areas.
4+ years as marketing Manager
4+ years of sales management experience preferably in a service related industry.
Proven history of demonstrated success at negotiating large contracts (\$50k+).
4+ years of telemarketing and call center experience.
Experience in Market Research
Strong sales, communications, public relations and mentor skills.
Good presentation.
Proven history of demonstrated success in developing a client base.
Proficient in the use of Microsoft Office and other standard productivity tools.

This Marketing / Sales Manager, as mentioned earlier in this document, will be the one to train the Account Manager and will provide Market Research support for the product development. The Marketing Manager will also be responsible for providing direction to an advertising agency for the re-branding effort recommended in the strategy section of this

document. The reason for this is that a well-executed re-branding campaign usually involves creative copywriters and other artists that would be too expensive to hire internally and independently. To outsource the re-branding campaign to the advertising agency seems to be the most cost effective alternative. To have a Marketing Manager working for RW Tracers is key in order to give direction to all the efforts conducted by the advertising agency. It is well known in Marketing that, an advertising agency without a clear direction from the client will usually result in wasted time and deficient communication efforts. The costs associated with this recommendation of bringing in a Marketing Manager are as shown in table 4.2.

**Table 4.2 Marketing Manager Costs.**

Internet ad to hire Sales Manager	\$ 600
Annual Base Salary	\$ 55,000
5% Commision on incremental sales (.05 x \$600,000)	\$ 30,000
<b>TOTAL</b>	<b>\$ 85,600</b>

The above costs are market prices for a Marketing Management position derived from recruiting websites. The commission cost is calculated by assuming that the sales goal of the key decision makers is met. So this means that, for the purpose of this document, the highest cost will be used for profit calculations on this recommendation. In terms of expected revenue, the Marketing Manager should increase revenue mainly through conducting three efforts discussed earlier in this document:

- a) Train the Account Manager to acquire the big clients and retain them.
- b) Provide direction to the advertising agency to launch new re-branding campaign.

- c) Conduct Research to improve product mix and innovation.

The revenues associated to the last two effort are detailed later in this section because there are other costs involved besides the Marketing Manager's salary. Because of this, the cost of the Marketing Manager will only be apportioned to the first effort mentioned above.

It is assumed that the Account Manager, with proper training from the Marketing Manager, will continue with his monthly sales performance prior to the shift of interests in RW Tracers. The difference translates into \$201,600 a year, which means, that at a price of \$480 per search, sales would increase by 35 searches a month. In the mind of the company's President and CEO, this is an extremely conservative number, specially considering that it has been obtained in the past with less knowledge and technology. By subtracting the costs from the revenue, the estimated profit of \$114,400 is obtained from this Marketing effort.

The second recommendation, in line with the re-branding effort conducted by the Marketing Manager, to improve the weak Marketing efforts, is to send out 5,000 mailers with the new brand image discussed earlier in this document. The mailer will introduce the existing customers and prospects (this includes prospect and existing big clients) that were added to the database recently (less than 52 months ago) to the new brand. The mailer includes the following:

1. Informative Brochure.
2. Coupon with the offer "Get a ten day search for the price of a thirty day search or get a thirty day search for a the price of a ninety day search" (this means that we offer more speed for the same price).
3. Client List.
4. Free Quotation Form.



5. Account Executive Business Cards.

The estimated costs associated with this second recommendation are as shown in table 4.3.

**Table 4.3 Re-branding and Direct Marketing Costs.**

Advertising Agency Fees for designing new image (including business cards, letterheads, envelopes and mailers).	\$ 10,600
Business cards, letterheads & envelopes production costs	\$ 2,800
Mailer production costs (\$2 x 6,000)	\$ 30,000
Mailing costs (\$.5 x 5,000)	\$ 6,000
<b>TOTAL</b>	<b>\$ 49,400</b>

The above figures show 6,000 mailers produced in order to keep a stock of 1,000 after sending the remaining 5,000. In terms of the revenue expected, according to Kris Oser (2003), the average response rate of Direct Mail is 2.61 percent. Using this estimated response rate, the expected revenues from this effort are shown in table 4.4.

**Table 4.4 Re-Branding and Direct Marketing Revenues.**

Mailers Sent	5,000
Responses (.0261 x 5,000)	130
<b>Expected Sales (130 x \$480)</b>	<b>\$ 62,400</b>

By subtracting the costs from the revenue, the estimated profit of \$13,000 is obtained from this Direct Mail effort.

The third recommendation, in line with the product development effort conducted by the Marketing Manager, is to develop new products according to the customers' needs. The costs associated to this effort are as shown in table 4.5.

**Table 4.5 New Products Development Costs.**

Phone calls required to obtain representative information		300
Call costs ( $\$.05 \times 10 \times 300$ )	\$	150
Required labour hours to make phone calls ( $(300 \times 10) / 60$ )		50
Phone call labour costs ( $50 \times \$20$ )	\$	1,000
Required labour hours to summarize data and obtain conclusions ( $(300 \times 5) / 60$ )		25
Data analysis labour costs ( $25 \times \$20$ )	\$	500
<b>Total</b>		<b>\$ 1,650</b>

It is well known in the Market Research area that many different firms use a sample size of 300 to infer infinite population trends with a 95 percent confidence level. Using this sample size of 300, the estimated costs to conduct the survey come up to \$1,650. The reason why this may sound low compared to other market studies is mainly due to the fact that RW Tracers has the database and the call centre capabilities to do it. Other consumer product companies do not own a call centre and they have to outsource these functions to a Research agency. The call costs are calculated assuming that the cost per minute remains to be the current five cents and that the survey will be approximately ten minutes long. The required labour hours to summarize the survey results are calculated by assuming that five minutes are needed per survey.

The expected incremental revenues generated by this effort are shown in table 4.6.

**Table 4.6 New Products Development Revenues.**

Current annual sales	\$ 7,200,000
<b>Expected Sales (.015 x 3 x \$7,200,000)</b>	<b>\$ 324,000</b>

In its beginnings, RW Tracers would experiment an average 1.5 percent increase in sales when launching a new product on the market. This historical number is being used in the above table to estimate what would happen if RW Tracers were to replace its existing three products with another three enhanced products. It makes sense to think about three new products because it seems logical that after such a long time without innovation, the existing three products must be outdated. So by multiplying the three products by 1.5 percent of \$7,200,000, revenues for \$324,000 are obtained. This means that the profit for this effort is estimated at \$322,350.

The fourth recommendation to improve Marketing is to update RW Tracers' website with the new brand campaign and the new required functionality detailed earlier in this document. The website will contain the following:

1. Home Page with new campaign image.
2. Free Automated Online Quotation Form Page.
3. e-TracerNews Page where clients give us their email addresses and they receive the "TracerNews" newsletter electronically.
4. Services Page with the description of all the services provided.
5. Promotions Page is the electronic version of the coupon in the informational mailer.
6. Contact Us Page.

7. Employment Opportunity Page.
8. Industry Related Links Page.
9. Client Area where the customer will be able to enter a user ID and Password to access status on searches and reports of finished searches. This will save costs of shipping reports and phone consultations.
10. Chat capabilities to communicate directly and live with the customer.
11. Online invoice and payment history.
12. Online payment capabilities.
13. Sales Forecasting & Reporting.
14. Recommendations mail box.
15. Automated track of referrals.
16. Search related document submission interface.
17. RW Tracers client email accounts.
18. Automatic subscription to periodical electronic newsletters.
19. Updateable customer profile.

A web development company has estimated the costs associated with the above initiative at \$70,000. This company will be the one in charge of making all the required changes to the website. The reason for this is that, as mentioned earlier in this document, RW Tracers' IT staff does not have the knowledge to build this web application on its own. It is not easy to quantify

the impact that this initiative will have in sales since most of the effort is focused on improving service and processes; and this type of effort has never been pursued in the past.

The fifth recommendation is to implement the new CRM system called SalesLogix. The new CRM methodology will allow RW Tracers to rank, target and prospect clients using what Bryan Eisenberg (2002) calls the RFM (Recency, Frequency and Monetary Value) methodology. Through this methodology, the firm will guarantee that customers are not treated equally. Each customer has different needs and has a different level of importance to RW Tracers. Tight relationships with the clients will be built through calling them and spending the necessary time to address their concerns and solve their problems. Using the RFM methodology as a basis, this is how the calls will be scheduled:

- a) Prospects (names in the database that have never had a case with the company) will be phoned every three months. These prospects are mainly the big customers that are currently not doing business with RW Tracers. These phone calls have the objective of bringing the big clients into RW Tracers business by asking them for the opportunity to have a face-to-face presentation of RW Tracers' services. This means that the Marketing Manager will have to travel constantly. The phone calls will be designed by the Marketing Manager who will also train the Account Manager to make these phone calls properly.
- b) Active clients (names that have had a case with us within 52 months) will be phoned to build loyalty (relationships with the customer), thus, increasing their CLV (Customer Lifetime Value). Once again, to build relationships there is nothing better than a face-to-face presentation. The objective of the phone call is to get the opportunity to meet existing active customers and relate with them.

These clients will be grouped in five levels of excellence where five identifies RW Tracers' top clients and one is for the worst customers:

- Levels five and four will be phoned once a month and e-TracerNews will be sent every three months.
- Level three will be phoned once every three months.
- Level two will be phoned once every six months.
- Level one will be phoned once a year.

c) Inactive clients (names that have not had a case with the company within 52 months) will also be phoned. The objective is to renew loyalty and strengthen the relationships with the big clients that stopped doing business with RW Tracers due to the fact that the company's efforts were re-directed towards the collections agency. Visits to these clients will also be conducted. The phone call patter will be as follows according to their CLV:

- Levels five and four will be phoned once a month.
- Level three will be phoned once every three months.
- Level two and one will receive a letter once a year.

The expected costs associated to this effort are as shown in table 4.7. The costs shown in such table have been obtained via a SalesLogix supplier. The support costs include new upgrades to the system and the implementation costs include expected training expenses. It is important to note that SalesLogix is a second tier system that is used for mid size companies. A first tier solution could potentially suffice for the short term; however, the idea is to buy an application

that will support the expected growth of the organization. A third tier product is the one used by huge corporations that would be an excessive expense for RW Tracers that would be greater than the mentioned available financial resources. Though CRM may be considered as a cost strategy, in this case it is used to enable a differentiation strategy, which is to visit the customers and build relationships via a face-to-face encounter.

**Table 4.7 CRM Implementation Costs.**

<u>SalesLogix</u>	
Cost of 73 licenses (\$1,720 each)	\$ 125,560
Annual support fees (10% of installed base)	\$ 12,556
Annual maintenance fees (10% of installed base)	\$ 12,556
Implementation costs including customizations	\$ 35,000
Additional hardware costs (1 new server and ram upgrades for 73 PCs)	\$ 10,000
Trips per year (2 per month)	24
Cost per trip	\$ 1,500
<b>Total</b>	<b>\$ 231,672</b>

In terms of expected revenue, according to Best Software (2005), sales increments vary considerably between 24 and 350 percent depending on the industry. RW Tracers' industry is very unique and no references can be found as to sales increment percentages for this market. However, for the purpose of this document, a very conservative percentage is being used as shown in table 4.8 below:

**Table 4.8 CRM Implementation Revenues.**

Current annual sales	\$ 7,200,000
Expected CRM effect (.05 x \$7,200,000)	\$ 360,000
Expected Marketing Manager Sales (.4 x 24 x 2 x 12 x \$420)	\$ 110,592
<b>Total</b>	<b>\$ 470,592</b>

The above table shows that, even using a conservative five percent increment in sales and a conservative success rate for the visits, the pay off for this effort is considerable. The revenues coming from the visits are estimated using RW Tracers' existing closing ratio of forty percent and the average number of cases per client, which is two per month. This means that the estimated profit for this CRM recommendation is for \$238,920.

Having completed the financial calculations for the recommended strategy, the next logical step is to summarize them to make the comparison with the criteria set by the decision makers. First of all, after adding all the costs, the total expense on the new strategy adds up to \$438,322. This is below the \$500,000 that the key decision makers had set as the budget for the new strategy.

Secondly, after adding all the revenues, the total estimated growth in sales comes to \$1,058,592. This figure does not only satisfy the expected growth in sales of \$600,000. It also represents a 76 percent increment on top of the goal set by the decision makers.

Finally, in terms of profitability, the company's current profit margin is twenty percent. The profit obtained from the new strategy and the action plan detailed above comes up to the amount of \$620,270. By adding this additional profit to the existing profit, RW Tracers' total estimated profit is \$2,060,270. This amount represents 25 percent of RW Tracers' estimated total sales. This means that the profit margin is estimated to increase by five percent with the



implementation of the recommendations analysed in this section of the document. This result in profitability meets the decision criteria of the top managers in the organization.

In conclusion, the recommended strategy and action plan appear to be sound alternatives in addressing RW Tracers' performance issues. Having the right strategy and strategic fit in an organization is key for the firm's success. In the case of RW Tracers' priorities shifted due to the creation of a new firm that required RW Tracers' attention, thus generating a shift on the strategy. Now, it is just time to return to the roots that made the company successful. It is time to compete again. It is time to be different.

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