

## DIAGNOSES

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# *Can a Technology Enterprise Transition from Niche to Wider Market Appeal in the Turbulent Digital Media Industry?*

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## *Case Analysis*

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**B**annister Lake Software Inc.'s (BLS) president, Georg Hentsch, is seeking to increase the revenue of his firm by 67 per cent (from \$0.9 to \$1.5 million) and profits by 734 per cent (from \$12,000 to \$100,000), with an intent to sell off his business and retire in the next 5–10 years. It is important that Georg's growth strategy for BLS should lead to a substantial increase in the value of his company for potential investors, so that he can sell his shares at an attractive price. This would entail improving both short-term financial performance and long-term business potential. Accordingly, the future strategy at BLS can be broken into incremental response aimed at realizing current financial performance objectives and radical response aimed at improving long-term business sustainability and growth. This case analysis assumes that Georg's decision to sell off his business and retire is final and irrevocable.

### **Incremental Response: Increasing Current Revenue and Profitability**

#### **Situation Analysis**

The strong top-line growth of BLS is driven by customized products, outsourcing model (contractual software professionals with profit sharing), internationalization

(entry into the US market), and strategic alliances. Going forward, BLS has high aspirations on both revenue and profitability. While the current manpower could support revenue enhancement up to \$1.3 million from the current level of 0.9 million, increasing it beyond that level would require additional manpower. To improve revenue and profitability, BLS should undertake the following strategic initiatives.

*Marketing initiatives with focus on the US market:* Currently, BLS is heavily reliant on word-of-mouth marketing for acquiring new clients. The primary focus of BLS should be to identify new sources of reaching out to potential customers. Due to limited resources available to the firm, it is important for them to focus on markets that offer maximum opportunities on both revenue and profitability. While BLS has improved its presence in the US market significantly, a large portion of the market is still untapped. BLS has competitive advantage of lower prices and efficient delivery vis-à-vis large players and customized offering as compared to smaller players. Since television (TV) viewership and associated sponsorship is likely to decline in future, broadcasters may resort to aggressive cost-cutting. The low-price model adopted by BLS may help it to gain a strong foothold in the US market. Another compelling reason to invest in the US market is the increasing growth of social media usage (Radcliffe, 2016). The number of social media users, especially among the youth, is likely to be more than 75 per cent by 2016. BLS with its product, TweetOut, is well placed to exploit this conjunction of social media and the broadcast industry.

The European market may pose challenges to BLS. Their product and service requirements are different. Additional effort and expense on the European market with potentially long recovery times are not compatible with Georg's plan of a quick increase in revenues. Moreover, potential cultural differences may prove to be a spanner in the works. With Europe's ageing population and associated reduction in social media usage, pursuing the US markets would make strategic sense.

BLS ought to make a major sales push in the US. For example, a stall in the NAB show at Las Vegas<sup>1</sup> would

<sup>1</sup> It is an annual trade show produced by the National Association of Broadcasters. It takes place in April at the Las Vegas Convention Center in Las Vegas, Nevada.

increase product reach to a large number of potential customers. An aggressive US push would be useful for products that are not sports-centric. Partially sponsoring the sports summit in New York in December is another option that could help them make an entry into the US sports market, where they have so far had negligible presence.

*Drive revenue by hiring new talent:* BLS currently has an extremely small team which limits the number of clients it can pursue. Moreover, it limits the time available for development of new products. One possible solution is to outsource the development process to developing countries like India and China which would minimize costs and allow BLS employees to engage in targeted work (Visually, n.d.). Data suggest that the cost of software development in these countries is 25 per cent of the cost of development in Canada. The company could channelize the saved resources into marketing.

Another option is to hire fresh undergraduates out of colleges in North America as interns and utilize their help in order to realize newer products. Studies have shown that the average age of developers in America is on the decline (current average age is 36 years old), and there is a lot of talent that can be tapped into at relatively low costs (Garvin, 2013). However, this would entail changing the current business model of BLS. As of now, the firm has an outsourcing model and, therefore, a large part of profits are being appropriated by software developers. Going forward, the company can improve profitability of the current business by focusing on building a few products through internal efforts and economics of scale.

*New product development:* The idea of selling portable servers with pre-installed software seems lucrative from a profitability point of view. However, with the world moving towards cloud computing and online server hiring, this move could prove to have a limited application. A pilot can be conducted by creating a few of these hardware/software combinations and the product can be scaled up in response to a favourable market sentiment.

The recent increase in BLS revenues was largely driven by the improved sales of TweetOut and Super Ticker, both of which integrated social media with broadcasting. Given the rapid growth of social media, BLS

should aim to develop software that specifically caters to social media. Given that there is less competition in this segment, and that it is a largely untapped market, BLS can create a niche for itself in this market. This would provide a sustainable competitive advantage to BLS, thereby making it attractive to potential investors. It also ties in with Georg's scheme of selling off the business in the next few years.

### **Radical Response: Improving Long-term Business Sustainability and Growth**

BLS creates products and services for the media broadcasting industry. However, the future outlook for media industry is uncertain, given the emergence of the Internet and social media. Not surprisingly, the advertisement revenue growth is projected to be only 2.8 per cent and TV sales have been sluggish. Given the dynamic nature of social media and its radical impact on means of mass communication, the significance of broadcast industry as a customer is set to diminish in the coming years. Georg's aim of achieving more than 700 per cent increase in profitability requires major

changes in BLS's future strategy. Chief among them is repositioning the firm to become a major player in providing state-of-the-art software to social media providers. This would require a significant realignment in the firm's structure and recruitment strategy and allocation of resources for developing competencies relevant to this sector. While this may extend Georg's deadlines for selling this company, it would give his company a sustainable competitive advantage, which would help him negotiate a better price in the market.

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