

To: Signifo Board of Directors **Subject: Signifo analysis**

1. Introduction

I have conducted an analysis on Signifo by using relevant marketing models. This analysis will form the basis of strategy decisions.

2. Signifo general overview

- B2B fast growing UK SME within software services sector.
- Established 5 years ago by its 3 founders the company has grown organically over this period.
- It has one product - expenses solutions software provided via the web.
- Current turnover - £1.5m
- Approx 400 customers, including high profile brands such as Heineken, Woolmark and Hitachi.
- Majority of customers are UK based SMEs, it only has a few overseas customers.

3. Customer analysis

1. Who are Signifo's customers? – Majority are SMEs in the UK that have a high proportion of expense claims.
2. **Why do these customers buy Signifo's product?** – The table below shows customers purchase because their specific requirements match Signifo product competencies.

<i>Customer requirements</i>	<i>Signifo's product</i>
<i>competencies</i>	
- Simplified processing of expense claims user friendly	- Fully web based system that is
- Time and cost savings implementation	- Quick, simple, remote
- Ease of use	- Availability of MI
- Quality service exceeded	- Category limits – flags when limits
- Better MI	- Credit card integration
- Better procedures that are not open to abuse rules	- Links to exchange rates and VAT
- Latest technology e.g. credit card integration systems	- SMS functionality
- Ability to work offline (especially for field personnel)	- Compatibility with hardware

3. How do Signifo's customers buy?

- Smaller customers purchase via the web and rarely require an on site visit as the product is installed remotely and is intuitive to use.
- Medium sized customers require face to face meetings, therefore, Signifo have to invest more time and money in these customers.
- It is assumed the principal purchasers would be Heads of / members of Finance departments who are looking for the time and cost savings in expense claims processing.
- The end users will be all of those submitting, approving, processing and administrating claims at all levels across the business.

4. Customer lifetime value

- Signifo currently have 379 customers with 18950 users. The average customer's size is 50 users and the average customer life is 36 months.
- On average, each customer generates £3960 revenue p.a.
- Customer Lifetime Value (CLV) is a current key focus for Signifo. The model below is used to calculate CLV, the current CLV is £2432.

1. Recurring revenues
£3960

3. Net Margins
£1270

5. Cumulated margin
£3810

2. Recurring costs
Lifetime Value
£2690

4. Lifespan of customer
3 years

6. Acquisition costs
£1378

7. Customer
£2,432

4. The business environment

1. Macro forces relevant to Signifo (**PEST**)

- *Legal* – Impact of SOX especially on US corporates. In turn this will impact on US SMEs and all other developed countries.
 - VAT changes
- *Economic* - Increased industry focus on efficiencies
 - Volatile exchange rates
- *Social* – IT spending for SMEs focusing on customer service and security
 - Time pressured culture
 - Increased trend towards home working
- *Technology* – Communication advances creating less need for travel e.g. video conferencing
 - M commerce
- *Ecological* – Focus on saving paper, creates a positive force for Signifo
- *Political* – DTI support for international trade
 - New EU legislation

4.2 Porters 5 forces

3. Key market trends

- SME growth in IT spending 4.6% in 2005 (Forrester)
- IT services growth 5.7 cag (Gartner)

- Expenses software market will be \$5bn when mature – currently 97% paper based
- IDC predict ASPs growth from £3bn in 2003 to £8bn in 2008
- In summary the market is growing around the globe

4. Map of key competitors

SME (International)	Corporate (International)
ExpensAble (US)	Concur (US)
	Necho (Canada)
	SAP (Germany)
SME (Domestic)	Corporate (Domestic)
Four UK players but very small at present	Global Expense (UK)

5. Strengths and weaknesses of key competitors

4.5.1 Concur	
Strengths	Weaknesses
Market leader with strong international customer base and key partnerships (e.g. Microsoft)	Product has no mobile SMS connection
System has majority of key features incl. Multi-language functionality	
Well established	
4.5.1 Global Expense	
Strengths	Weaknesses
As they provide an outsourced service they have a differentiated proposition	As the outsourced product is best suited to large companies they have to compete against bigger more established players.
With a medium size user base it appears there are growth opportunities	
4.5.3 ExpensAble	
Strengths	Weaknesses
Large US user base, providing vast experience	Software is not web based. This creates difficulties with software upgrades for their customers.
Connection to Quickbook enhances reputation and provides advantages in terms of customer intelligence.	As it is not a web based system it may not be intuitive to use.
	No mobile SMS connection
	No multi-language functionality

5. Product audit

1. Product analysis

Product core – what the customer buys?

- A simple to use expense claims solution that is web based and that can be fully integrated into existing hardware.

Physical aspects of the product

- Little physical aspects other than branding that is visible on user screens.

Augmented aspects – where value is added to deliver customer satisfaction

- Ease of use
 - o training instructions fit onto a postcard
 - o automatic links to current exchange rates
 - o automatic links to VAT rules for various regions
- Can be implemented quickly and easily

- Offline functionality
- SMS functionality
- Easy to maintain users and approvers
- Maintenance managed centrally

5.2 Current positioning strategy

	High price	Low price
High quality	Premium strategy	Good value strategy
Low quality	Over charging strategy	Signifo Economy strategy

6. Financial analysis - 2004/5

Ratio	Result	Comment
Gross profit margin	$1,431,231 / 1499595 = 95\%$	Very healthy
Net profit margin	$249,227 / 1,499,595 = 17\%$	Very healthy
Asset turnover	$1,499,595 / 44455.82 = 33.73$	Healthy
ROCE	$249,227 / 146,081 = 171\%$	High, but this could be inflated as the accounts show Significant no fixed assets.
Liquidity	$146,081 : 26,108 = 5.6$	Comfortable, but this is partly because there is a fairly large amount of cash in the bank, questions should be asked if it could be better employed elsewhere.
Gearing	$75,518 / 44,456 = 170\%$	Very high - could create problems if extra bank loans are required
Interest cover	$1,431,231 / 14,4 = 99\%$	Very comfortable, plus have liquid assets to pay interest
Interest on long term liabilities	$14,450 / 57,074 = 25\%$	This is high, it could be perceived as a high risk commitment
Debt collection period	$49,246 / 1,499,595 = 12 \text{ days}$	This is low, suggesting there is efficient credit control

NB. This analysis is limited as there are no accounts from previous years to compare to and analyse trends over time. There are also no intangible or fixed assets shown in the accounts to provide further insights.

7. Internal audit (Based upon McKinsey's framework)

Strategy: To target UK SMEs with innovative expense solutions software that is differentiated by rapid implementation, ease of use, robust and relevant functionality. They are beginning to focus on international territories.

Systems: Currently utilises a CLV model that is reviewed in monthly and quarterly marketing updates.

Staff: As staff costs account for 40% of revenue, they have gained top brand clients and the product is at the leading edge. It can be assumed they are of high calibre.

Skills: To establish a successful business within 5 years, it is assumed the founders have innovative, entrepreneurial skills with technological experience.

Shared values: The culture is dominated by the founders, It is entrepreneurial and innovative operating in a competitive environment.

Style: Commitment top down from 3 founders - creative, dynamic, leading edge.

Structure: No information is provided.

8. Marketing audit

8.1 Promotional methods audit

- 9% of revenue is currently spent on marketing and advertising.
- Information provided suggested communications are not integrated.
- Currently 50% of leads are converted to sales.
- The table below shows the costs per lead where the necessary information was available.

This suggests efficiencies can be improved.

Method	Cost per lead (£)
Pay per click online ads	83
Email marketing	22
Taxi receipt ads	500

8.2 Brand audit

Bonding - Does it retain itself with me?	Customer case studies suggest once you are aware of the brand it does, but as the brand is not known it is suggested that it would not be retained with non-users.
Advantage - Does it offer something different?	The innovative product does, but this is not communicated via the brand.
Performance - can it deliver?	Current customer satisfaction record suggests Signifo do deliver to expectations.
Relevance - Does it offer something I want?	Yes, for companies with a high proportion of expense claims - saves time and money.
Presence - Do people know it?	Currently promoting on website. You would not be aware of the brand unless you know the company or its product.

Summary - Signifo brand is in its infancy, to date they have done little to establish the brand values and promote these, instead they rely on the market leading product to create awareness and interest in the company.

9. Strategy audit

9.1 Porter's generic strategy analysis – how they currently compete

Broad competitive advantage	Narrow competitive advantage
Cost leadership	Cost focus
Differentiation leadership	Differentiation focus
Signifo currently fall into this category, they differentiate on product and service quality but they do not have any specific focus on any industry, instead they target all UK SMEs.	

9.2 Strategic direction analysis – Ansoff matrix

Existing product	New products
Market penetration strategy	Product development strategy
Build on profile in UK SME market to increase customer base plus retain existing customers.	Develop new payroll and other innovative ideas to save time and money for existing markets
Market is not yet saturated - 97% still paper based.	
Market development strategy	Diversification
Target SMEs in USA	Provide systems solutions consultancy with

ts	Target UK corporates	aim to save organisations time and money.
	Target SMEs and corporates in Australia, South Africa and Europe after conducting thorough market research in to market viability	

10. Product / market analysis

10.1 GE matrix for the domestic market (SMEs and Corporates)

Market attractiveness		High	Medium	Low
Com	High			
pet				
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adv				
ant				
age				
	Medi			
	um	Signifo		
	Low			

10.2 GE matrix for international market (SMEs and Corporates)

Market attractiveness		High	Medium	Low
Comp	High			
etit				
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adva				
ntag				
e				
	Medi			
	um			
	Low			
		Signifo		

10.3 International market considerations - Harrel and Keifer model

Country attractiveness/priority		High	Medium	Low
Sign	High		Australia	
ifo		UK		
capa		USA	Canada	
bili			South	
ty			Africa	
	Medi		Europe	
	um			
	Low			

11. Summary SWOT

Strengths	Weaknesses
First mover in the UK SME market with innovative products creating experience gains	High costs per lead
Marketing led, technologically and product capable	Only 50% conversion rate from trial to sale
High customer satisfaction - 89% good or very good	Gaps in product functionality to satisfy medium sized users
Winner of awards (SMART)	Predominately UK based - limited international experience
Fully web based product, this allows remote installation and updates and ensures it is easy to maintain for customers.	High gearing
Capable, experienced staff	Resource stretched
Product has a number of key benefits (it has been continually improved since launch)	No multi-language product functionality
Simple to use and maintain	Poor brand awareness and lack of brand personality
Offline functionality	Lack of relationship marketing strategy resulting in a fairly short average customer life of 36 months
Credit card interface	
SMS interface	
Integrates with hardware	
Profitable	
Opportunities	Threats
To drive more business in the UK SME market	Larger companies such as Concur with more resources
To enter UK corporate market	Expansion could stretch resources and create dilution of core values
To target SMEs in the US, South Africa, Australasia, European countries where there are a high proportion of English speaking citizens.	Competing product offers for SME IT spend
Improve product functionality to satisfy existing and future customer needs	ExpensAble could enter UK market via link with Quickbooks.
To partner with international companies and form strategic alliances / joint ventures to increase success of entry into new markets.	One of the big four IT companies could promote their expense solution as a stand alone product
	Loss of medium sized customers if don't develop required functionality.
	Barrier to entry is low

Best fit match

Threat of new entrants – High

Intense competition within the UK. Also lots of competition from around the world, notably US, Canada, Germany and Australasia

Supplier power – Medium

Signifo have a reasonable foot hold in the UK market but not internationally.

Industry Rivalry – Intense

There is competition from existing players in the UK and around the developed world.

Buyer Power – High

Buyers have a range of companies to choose from with slightly different product offerings.

Threat of substitutes – Medium

Possibility of other companies replicating Signifo's expertise and product offer, in particular one of the big four.

Competitive advantage – Medium

- Good product – easy to implement and use, relevant and market leading functionality (SMS, credit card integration etc.)
- High profile customers
- Limited resources (production, people, capital)
- Lack of brand personality and awareness

Market attractiveness – High

- 97% still using paper
- SMEs adopting ASPs but focus is on customer service and IT security rather than accounts software
- UK SME market leader

Competitive advantage – Low

- Little experience in international market
- No brand awareness
- Product has no multi-language functionality
- No. of competitors are well established in their domestic markets

Market attractiveness – High

- 97% still using paper
- Businesses adopting ASPs

Signifo capability

- It is ranked high for the majority of potential developed territories as Signifo has a high quality product that is superior to the majority of competitors in terms of the range of functionality provided.
- It is ranked medium for Europe because of the lack of multi-language functionality, which would limit its success.

Country attractiveness

- UK and USA are ranked as a high for their propensity to adopt ASP technology and the larger size of potential markets.
- Australia, Canada and South Africa are medium as they are English speaking so compatible with the product but the potential markets are not quite as large due to smaller populations.

High quality

- Market leader in UK SME market
- On an international level product contents has comprehensive functionality compared to competitors.

Low price

- Provides a good ROI with an average payback period of 3 months.