

Strategy analyses

Business



This paper will include an analysis of the company from the four strategy perspectives provided in the project deliverable which are: Strategy as rational thought – strategic planning and decision-making, Strategy as revolution – what is referred to as disruptive innovation, Strategy as resource allocation and accumulation in the firm, and finally Strategy as technology leadership viewed as a unique competitive advantage. Iris paper provides information about H&R Block in the areas identified in the project deliverables.

Background information regarding the company is provided, along with the mission, vision, and an overview of management and the current structure. The strategy of the company as defined by the CEO, current management statements in the annual report and investor meetings and conferences is explained. An analysis of this strategy is then presented focusing on core strategic concepts such as five forces model and value chain analyses. This paper then provides a nominative analysis from both an external and internal perspective.

External factors affecting this organization that are included involve an industry overview in each of the areas in which the company operates; tax preparation, mortgage services, financial services, business services, and software. In addition, foreign markets are explored for possible opportunities.

Internal factors include a SOOT analysis as well as identifying the current business ethics and social responsibility paradigms exhibited by current management.

Diversification strategies employed are identified as well as the current state of shareholder value. A final strategy analysis is provided with an overview of results and how the strategic plans of Block have been implemented and to what degree. Finally, future plans are explained and the information in this paper is summarized and final comments are added. H&R Block is a dynamic company with a history of providing excellent tax preparation services to over 16 million clients a year.

Can this company branch out successfully into these other complimentary areas of mortgage, financial services, business services, and software and ensure they no longer depend upon one product UT instead truly do become what they envision; To help our clients achieve their financial objectives by serving as their tax and financial partner. Table of Contents Introduction 5 Company Background.....

.....

.. Vision ? Management Structure 8 Strategy 10 Strategy Analyses . 2 alee Chain 13 Five Forces Model ? 14 Competitive Analysis – External 16 Industry 16 Tax Preparation Competition 17 Software Comparison: Ataxic versus Turbo Tax 20 Mortgage Industry 21 Financial Advice Industry...

.....

... Markets ? Strengths: . .

24 Insaneness: . 25 Opportunities: ? Threats: ? ? 6 Business Ethics ? Social Diversification Strategies ? Mergers and Acquisitions Shareholder mum ?

Strategy – integration of services across business 34 Future 22 Foreign 24
SOOT 24 32 .

.. 9 36 Summary and closing ? Company Background H&R Block opened in Kansas City, MO in 1955 specializing exclusively in income tax preparation. Because the IRS no longer offered free tax preparation starting in 1956, H&R Block was able to capitalize on this enormous new market, by offering this service in the right place at the right time. H&R Block holds the largest market share in the tax preparation business and filed 14.

3 million or 15. 3% of all tax returns with the IRS in 2003 (HERB, 2003). H&R Blocks fiscal year ends on April 30th.

Much of Block's revenue is highly seasonal with over 50% of its annual revenue from the period of February – April, known as the tax season. H Block operates out of 9, 301 tax offices and 98 Financial Centers in the United States, as well as 1, 334 tax offices in Canada, Australia, and the United Kingdom and has a presence in all 50 states.

Many of these offices are seasonally open only from January through April, although some offices main open year round and phone representatives are available year round.

Block news its business in five segments consisting of United States Operations, International Tax Operations, Mortgage operations, Investment Services and Business Services. Before H & R Block was born Henry Bloch opened up a bookkeeping business called United Business Company and later his brother Richard joined him. They did bookkeeping for several

companies and they had an office of 12 employees, they even did income taxes for some of their clients. Eventually, they were becoming overloaded.

So, one day they decided that they weren't going to do income taxes anymore, but one of their clients, which was an advertiser for the Kansas City newspaper suggested that they should try to make a business out of doing income taxes.

So, their client persuaded them to run an ad twice and the IRS had just stopped doing free income tax returns. So, one day their office was full of people who needed to get their taxes done. On January 25, 1955 Henry and Richard Bloch replaced their original firm with a new firm, H & R Block because they wanted a company that strictly specialized in preparing income tax returns.

The company went public on February 13, 1962, with a \$300,000 offering, 75,000 shares at \$4 per share. H&R Block became listed on the New York Stock Exchange in 1969.

Today H&R Block Inc. is a diversified company with subsidiaries that deliver tax services and financial advice, investment and mortgage products and services, and business accounting and consulting services. The world's largest tax preparation company, H Block in fiscal year 2002 served nearly 21 million clients in approximately 10,400 retail offices worldwide and with award-winning footwear and online services.

Investment services and securities products are offered through H Block Financial Advisors Inc. , member NYSE, SIPS.

<https://assignbuster.com/strategy-analyses/>

H Block Mortgage Corp.. Offers retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and a range of mortgage services.

RSI McGreevy Inc. Serves mid-sized businesses with accounting, tax and consulting services. Mission or help our clients achieve their financial objectives by serving as their tax and financial partner. (HERB, 2000). Vision H Block seeks to be the world's leading provider of financial services through tax ND accounting-based advisory relationships. HERB, 2000).

Mark A. Ernst, 46, is chairman of the board, president and chief executive officer of H&R Block, Inc. He was appointed chief executive officer in January 2001, and elected chairman of the board in September 2002 (HERB 2002). Ernst joined H&R Block in 1998 and was first elected to the board of directors in 1999 when he was appointed president. Since joining the company, Ernst has been responsible for developing and implementing a long-term strategy for the company that strengthens the H&R Block brand and builds on the company's history of service to clients.

Over the past five [ears, he has managed the company to achieve annual results that rank H Block in the top 10 percent of all companies in the S 500 for financial performance.

During his tenure H Block has sharpened its strategic focus on increasing the value that its tax professionals bring to their client relationships; moved forward with its mission to become its clients' tax and financial partner; strengthened its senior management team by hiring executives with the

expertise needed to offer clients a wider range of financial services; and brought more discipline to its planning processes.

The company and its subsidiaries offer a full range of tax, financial and mortgage products and services, including personalized financial advice about retirement savings, home ownership, and other opportunities to help clients to build better financial future. (HERB 2000-2005) Blocks Five Business Segments consists of tax services available to the general public in the U. S. This includes the company's full range of software including Ataxic personal tax preparation software, online tax preparation services through Warlock. Mom and tax preparation through one of the company's tax professionals.

The company generates revenue from tax services provided through company owned tax offices and royalties from franchised branches. Also in this segment are H&R Blocks tax preparation classes in which members of the public and perspective employees learn how to complete tax returns. During '03 254, 000 students enrolled at an average price of \$450 for this 80 hour class (HERB 2003). Besides traditional personal tax services, the company also offers software Ataxic (\$15-\$50) and an online tax preparation program (\$35-\$100).

International tax operations offers all of the services listed above for U.

S. Citizens living abroad wishing to file U. S. Tax returns in addition to filing foreign returns for citizens of foreign countries. Pre-tax income for this segment has increased 114% over the last four years. Investment services: This segment of H Block Inc.

<https://assignbuster.com/strategy-analyses/>

Offers investment advice and related services and securities products through HERBAL (H Block Financial Advice) branches to the general public. A nationwide network of registered representatives makes stocks, bonds, mutual funds and similar products and available.

In '03 Block had 1, 600 financial advisors and registered associates in more than 600 offices connotation (HERB 2003). Average trading volumes fell during fiscal year' 03 by approximately 21%, as measured by average trades per day. This is one of Block's sources of non-seasonal revenue and is expected to drive revenues and overall company growth during the coming years (HERB 2003-2004 statements by management in annual reports and investor meetings).

Block views its key to future success of the investment services segment as retention and recruitment of financial advisors, which Block pursued in '03 by hiring 260 experienced advisors.

This segment of Blocks business has experienced severely declining revenue which is suggested to have been a result of the unfavorable environment of the equity market during the recent years. However, since acquisition of this business in '00 Block has been able to increase clientele in this division by over 14%. H&R Blocks management lists the Investment Services business as one of their priorities for the next six years. Mortgage operations: Subsidiaries in the Mortgage Operations segment originate service and sell prime and sub-prime mortgage loans and securities residual interests in the United States.

Sub-prim mortgage originations constitute 90% of Blocks business in this segment. Through a network of more than 24, 000 mortgage brokers in all 50 states this segment offers a diverse mortgage product line to clients that do not meet traditional underwriting criteria, according to Reuters. These services are available through Blocks subsidiaries in addition to HERBAL branches. Block approves about 50% of their loan applications which come from over 2, 200 Independent sales associates throughout the U. S. Block makes money from the gain on the sale of these loans to other lenders.

Through serialization the company makes money from the interest spread between its funding costs and its cost of rowing. During the past 2 years, the declining interest rate environment has been favorable for the company and the company has been able to achieve as high as 4. 46% in net profit margin. (HERB, 2004) Business services: H&R Block's business services segment provides accounting, tax, consulting, payroll, employee benefits to business clients and tax, estate planning, financial planning, wealth management and insurance services to individuals.

These services are made available through a number of sources, the largest of which, RSI McGreevy, Inc, operates more than 100 offices in 22 states. (HERB, 2004).

In addition to these business units under the parent company along with the core H Block Tax Services, Inc. Created the operational backbone to support a fuller line of financial services. Cross selling is heavily used and customer information, with proper consents, is shared amongst the business units for marketing and contacts.

Even though this strategy is well under way, and in some ways is doing well other Nays not, the average person on the street does not have any idea Block does more than “ taxes”. In addition, some attempts to cross sell have worked to some degree such as mortgage products but others, such as offering AIR products to tax clients, have not. H Blocks average client has an income around \$38, 000 (individual) and do not seem to be interested in savings vehicles to the degree that would be necessary to meet sales goals.

Strategy Defined In an effort to become “ America’s year-round tax and financial partner” Block transformed itself from a company focused exclusively on tax preparation to a company that provides comprehensive financial services. This diversification aimed to offer existing clients a wider range of products and services while compensating or sagging revenue during the off season of the tax preparation business. In researching statements by management in annual reports, investor meeting materials, etc. The author finds the following strategic direction is desired by the company.

Several years the new CEO, Mr..

Ernst, at H Block said that the new strategy is to take the steps necessary to transition the company from “ tax preparer” to “ financial partner” (HERB, 2000). Ask anyone you know what does this company does and you will hear “ prepare taxes” but financial partner? H Block, Inc. Began to implement a strategy to offer clients, and potential clients, additional financial services beyond tax preparation. H Block acquired Older financial (based in Detroit) and used this firm as a launch to create H Block Financial Advisors, Inc.

In addition, Block acquired Option One mortgage (Based in Irvine, CA) and renamed the firm to H Block Mortgage, Inc.

Block's management feels that the tax preparation market is so unsaturated that it is foreseeable to open 50% more stores in order to provide its customers sufficient convenient locations. H Block studies indicate that for some of their clients, convenience of location is valued higher than brand name and that the only way to future such fringe customers is open stores throughout market areas. These plans are currently under formulation and implementation.

Although there was a 6% increase in the number of tax return offices, tax clients served declined 3% during '03, which led Block to file 600,000 fewer returns than in '02. This was offset by a jump in software sales of 600,000 for the same period. Block achieved increased profitability during the '04 tax season as a result of higher tax preparation fees.

Average tax preparation fees have increased about \$10 per year over the last four years to \$130.59 suggesting that demand is slip. NET price elastic. To Mr. Ernst because of this elasticity Block can continue to raise its prices to generate revenue growth. The company is competing on quality, not on cost and on 'location' whether it be a physical location or via online using the web.

In addition, the company has announced the opening of 400-500 new offices for tax season 2005 in under served markets. With the trending to online and software, causing a decrease in office clients, this may be a mistake. One of the Organization's Corporate Priorities is to integrate and align Tax,
<https://assignbuster.com/strategy-analyses/>

Solutions, Financial Advisors and Retail Mortgage, incorporating advice as a key differentiator.

In that respect, the Company's Vision states: " To be the world's leading provider of financial services through tax-and accounting- based advisory relationships. " It appears that the vision statement does not fully reflect the company's long-term goals since it only mentions two specific products, -tax and accounting- under the umbrella of financial services.

By stating only two products, the vision statement implied that tax and accounting are the company's core strategic goals, with the other products revolving around them.

If that were the case, then all the integration and arrangement measures through structural changes done in order to accelerate the alignment process would be much ado about nothing, that is, if the company's true intention is what can be deduced from the Vision statement. Strategy Analyses Some of the measurements of an effective strategy as outlined by Thompson, Strickland & Gamble (2005) includes consideration of and alignment with the adopted competitive moves and business approaches, a focus on competitive advantage, resource strengths and overall competitive capabilities.

By acquiring complimentary businesses, financial services and mortgage, the company has been able to, to a certain degree, begin offering the millions of customers who come to Block for tax preparation other financial services.

During the last few years mortgage has done well, tax held steady with barely an increase, and financial services has lost money.

<https://assignbuster.com/strategy-analyses/>

Online services and software have shown good increases in clients yet profitability is 'err low at this time. Consumer awareness and trust as well as infrastructure and technology needs require more work than originally realized.

In addition, the internal problems of an old cash cow business unit, Tax Services, being asked to suddenly share clients with, and work with, business units with differing cultures and operating speeds is a much larger issue perhaps than management anticipated. Rhea strategy of providing additional financial products to current tax customers as well as running these complimentary business units as unique operations does have good fit, H Block does have competitive advantage in the service areas mentioned but more so with Tax and Mortgage than with financial services.

It may be argued and the results the last few years bears this out, that the client base of Tax and Mortgage are not the most ideal financial services fit. Tax and Mortgage deal primarily with mid to low income groups and high profitability in financial services comes from the mid to high income groups.

Value Chain Rhea value chain categorizes the generic value adding activities of an organization. Rhea "primary activities" include: inbound logistics, production, outbound logistics, sales and marketing, maintenance.

The "support activities" include: administrative infrastructure management, human resources management, R, and procurement. The costs and value drivers are identified for each value activity. The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tool for strategic planning.

<https://assignbuster.com/strategy-analyses/>

Its ultimate goal is to maximize value creation while minimizing costs (Porter, 1985). Rhea value chain maps a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation.

Differentiation results from the way a firm's product, associated services, and other activities affect its buyer's activities. All the activities in the value chain contribute to buyer value, and the cumulative costs in the chain will determine the difference between the buyer value and producer cost. A firm gains competitive advantage by performing these strategically important activities cheaper or better than its competitors.

One of the reasons the value chain framework is helpful is because it emphasizes that competitive advantage can come not just from great products or services, but from anywhere along the value chain.

In strategic management it is critical to understand both the competitive advantage of an organization as well as understand the value chain. Five Forces Model Rhea five forces model developed by Porter (1985) guides the analysis of organization's environment and the attractiveness of the industry. The five forces include the risk of new competitors entering the industry, threat of potential substitutes, the bargaining power of buyers, the bargaining power of suppliers, and degree of rivalry between the existing competitors (Porter).

A starting point to analyzing the industry is to look at competitive rivalry.

If entry to an industry is easy then competitive rivalry will likely to be high. If it is easy for customers to move to substitute products for example from coke to water then again rivalry will be high. Generally competitive rivalry will be high if: There is little differentiation between the products sold between customers. In this case Block has the advantage of a long solid history with the perception being that they know what they are doing and can be trusted.

In addition, electronic filing is a long time product of Block that has also gained a lot of trust with customers.

Of the two competitors, lacks Hewitt and Liberty, Block is the only one with a guarantee that pays additional costs of any errors in work done. Competitors are approximately the same size of each other. The two competitors are very small compared to Block. No other tax preparation firm comes close to reaching the size and market share of kick. If the competitors all have similar strategies. They do have very similar strategies in the tax services arena; however, this will be an area to review in regards to financial services and mortgage.

Suppliers are also essential for the success of an organization, however Block is a service business and suppliers are abundant for office supplies, computer equipment, etc. Block develops its own tax software. All mission critical needs are handled by Block so the threat of suppliers is almost non-existent.

Although, the IRS in a sense is a supplier of the electronic filing product infrastructure and does heavily influence what sort of electronic filing

<https://assignbuster.com/strategy-analyses/>

products are offered. Buyers or customers can exert influence and control over an industry in certain circumstances. This happens when there is little differentiation over the product and substitutes can be found easily.

For many low income customers there is no loyalty and they will move to other providers if the fees are lower or they can get their refunds quicker.

Regarding threat of substitutes the question is: Are there alternative products that customers can purchase over Blocks product that offer the same benefit for the same or less price? This is high in the case of H&R Block due to the availability of cheap and easy tax preparation programs, the increased use of the internet by a growing number of internet users, and technology is creating new forms of service delivery such as online services and software capabilities and price. Competitive Analysis – External Industry Analyses Tax Preparation Industry: The IRS projected that for '05 they would receive 226.9 million tax