

Software service market

[Business](#), [Marketing](#)



Hardeep Software has been founded in UK for eight years, it is a small sized company that specialised in providing software service for small business, its sales are mainly based on two types of product, accounting software package (Funds Master) and Wireless card system. The company is falling into the margin squeeze, this essay is going to analysis the current situation of Hardeep Software and will give some strategic advises for future development.

Financial Analysis Figures calculation can be found in Appendix A Profit and Loss Account Analysis Funds Master, the core business of Hardeep Software, was suffered a sharp downturn in profits. Its sales volume had grown up 205% over the past three years; the most important cause of this growth was the substantial price reduction on the Funds Master. The unit price decreased from 78; nearly drop by 26% within three years.

Can be inferred that the demand of Funds Master was highly elastic, the "low price and high volume" approach enabled Hardeep Software to expand market share rapidly with existing customers and obtain new customers (MBAlib, 2008). However it resulted in the declining net profit from 90000 to 51980 and net profit margin from 43% to 16%. According that the net profit margin of within the software industry was 27. 15%, the one of Hardeep Software in 2007 was around 11 percentage points lower than the industry average. This was possible due to inefficient cost control (Bized. com, 2008).

There was a slight increase of 9% in the unit cost of Funds Master, the majority of which came from the related software expense incurred in respect of R&D, distribution and installation. Along with the price went down,

the large cost proportions led that the unit net profit in 2007 had drop by 72% since 2005. By comparison, Wireless Design Sales seemed small but more stable, it had an average income around 195, 000 per year, as well as its net profit and cost stabilised at about 154, 500 respectively.

Balance Sheet Analysis Despite the cash reserves had doubled during the past three years, the current ratio had merely increased by 14%, up to 93. 5% in 2007. It is because that the current liabilities remained so stubbornly high, particularly which peaked at 170, 000 in 2006. It appeared unhealthy compared with acceptable rate at 1. 5 for majority of companies in industry and the working capital in Hardeep Software was negative (Kennon, 2001).

The net asset turnover was above 2. 1 with 36% drop in three years, ROCE had fell nearly 3 times since 2005, from 107% to 39%, which was mainly due to a sharp fall in net profit margin rather than in net asset turnover. However the ROCE was still about 13% above the average of software industry. Turnover increased by 114, 800 but fixed assets increased by 100, 000 and current assets by 25, 000, the total asset had a slight decrease by 12%. The growth rate in assets was much faster than in turnover, because Hardeep Software might strength the investment on future development, the total assets could be predicted to recover in the long run (Bized. com, 2008).

Shareholders would like to have a look at the gearing ratio, figures in 2007 accounted at 0. 625, twice as much as that of the last year. Even though the shareholders' equity increased by 1. 5-fold, purchasing the factory freehold caused the loan amount up to 150, 000, three times than the last year. Evaluating the Strategy of High Volume and Low Cost The purpose of

Ruth's high volume and low cost strategy concentrates on expanding market share relied on the lower price than its main competitors and eliminating them out of software market (Winslow, 2008). Facts have proved that the cheaper price attracts more customers buying products, the volume of Funds Master sales doubled with 26% reduction on unit price in 2007. However, Hardeep Software is unable to achieve a healthy balance by transforming improving market share to respectable profits growth.

It is not rational to follow the pricing strategy of its primary rival (SAGE), which is the leader in accounting software package market; they have been trading in this field for a long time and have sufficient capability to compete on price alone. By comparison with Funds Master, SAGE is general on sale and supported by more numbers of customers, the profitability of bargain price would be much greater than on Funds Master. So Hardeep Software should strive to avoid the price war with them.

It is not a good strategy as Ruth does not have a full consideration on the product life stage as well as the operational cost. According to the financial data, Funds Master was on the mature stage. While the high volume and low cost strategy is best suited for the declining stage of business cycle when customers are seeking for deals with low prices (Winslow, 2008). The excessive investment on the promotion campaign (100000 advertising budget) and marketing channels (not only internet, but physical stores are also an indispensable part in product sales) make the company hardly to relieve the cost burden. Ruth could not stress on the price strategy while neglected customer loyalty cultivation. From the perspective of maintaining

customer loyalty, customers would begin to have doubts about the brand when the reduction on the price exceeds their gauge of worthless (Yang, 2005).