Strategic business management and planning bentley security company marketing ess...

Business is a dynamic field, (education 1951) where things change fast way. If some company makes mistake in its decisions either short terms or long terms it is always on losing side, and sometimes there is no come back from a dog position in a dynamic market. In this case study we will learn how process models and other tools help to analyze the situation of any business and how companies can effectively use these analysis tools to help them in bad situation as in this case study Bentley Security Company is facing.

For answering the three questions of the case study we will go into analysis of the situation using by use of process model analysis, porter five analyses and SWOT analysis, while answering to first question. We will also analyze through the analysis of corporate finance, expansion matrix for company, its product life cycle, its product positioning, its value chain and its competitive position. For answering second question we will analyze why company was fail to realize its core competency related to its value productions. In final question we will answer analyze the expected future profits as said by the CEO of the company that if they will be capable of overcoming the issue of bargain price, return over equity, rising debts, changing security Inc into profit generating component of business and by gaining the confidence of the market .

In the end we will conclude the study and will sum it up towards some concrete learning outcome, which can be practical in real business situations which we can face as business strategist working with any company. We will see how any company which facing problems like Bentley Security, can make good strategic choices?

1. 1 Background of the study:

Bentley is a Security Company that has been trading in Gotham City for twenty five years. Recently, the senior management team met to review progress.

Finance Director: I am concerned about our recent financial performance and it seems to me that we are in danger of being taken over at a bargain price. Our return on owner’s equity is 2% below the industry average and we have a large debt arising from the leverage purchase of Security Services Inc. What we can do to improve our financial results as soon as possible and, at the same time, convince the market that we have a long term viable future?

Marketing Manager: In my view we have an excellent portfolio and our problem are mainly due to poor cost control. We progressed from our base in producing domestic alarm systems into commercial systems and then acquired Security Services Inc – which provides guard and watch services for commercial premises – that capitalized on our core skills at each stage. We decided into diversify because the domestic market was saturated and there have been large increases in the number of suppliers because it is now an easy business to get into as the technology has become standardized. The commercial sector was growing due to the current economic boom; but we have been stuck at 12% market share in the commercial systems market and while Security Services Inc had over 300 service contracts when we acquired it, we have not yet been able to attract any new customers.

Human Resource Manager: I should point out that I find it difficult dealing with security personnel and this could be one reason for the fact that we don't make much profit on the security contracts.

CEO: If we address the short and long term issues mentioned by the finance director, then we shall remove the incentive for anyone to take us over. But in the meantime, we should investigate the possibility of undertaking a management buy-out (MBO).

Issues:

Others companies have competing price

Finance situation is poor

2% less profits /returns on investor's equity

Increasing debt

Poor cost control

Increasing saturation in domestic market

Growing new rivals

No new customer for security Inc

Poor performance of security staff

Turning point:

Before acquisition of Security Inc Bentley was performing well in alarms production, after acquisition of that company things went poor as Bentley was unable to win new customers.

Accounts issues:

More expenses at corporate HQ

More interest payments on debts

Effective use of product development

Less expenditure on marketing

Control of cash flow that is negative

Control of loaning

Commercial alarms and security Inc required improvement

Product development required as more expenses and attentions on warranty demands

Price is far less than market in commercial alarm its 500 as compare to 600 and in security personal its 17000 as compare to 20000 per annum

Plus Points:

25 years of experience

Good performance in domestic and commercial alarm productions

Targets:

New targets that could make Bentley again in growth can be its financial targets of increasing the profits and reduction of debts and other costs.

Further it also required to win investor confidence over its performance in the market.

Suggestions by CEO:

Removal of incentives for competitors

Management buy-out

2 Question One:

Use strategic models to identify the actions the management team might take to deal with Bentley's short term and long term problems.

2 Answer:

Bentley is an ideal case study to see how a business that was making progress in last twenty five years suddenly started a decline that brought management to sit and analyze the situation before it is too late. To make a better analysis of situation and get solutions for Bentley's short term and long term problems we need to make following analysis

2. 1 Corporate Finance

As the study shows that Bentley is suffering from financial problems. So, Bentley management required urgent attention and for that there can be few short term and other long term strategies to control over the finance issues.

Short Term Choices:

Bentley should make right sizing at its head quarter as it has extra staffing on its head office.

It should stop debt as its costing more on payments.

Bentley should adjust more on marketing their alarms.

Long Term Choices

Bentley should get more investment than loan by developing its market position.

It should put some finance on product development.

It should put finance on marketing.

It should invest more on its human resource to get competent staff for security Inc.

It should utilize its assets and inventories more into alarm production.

Expansion matrix

Ansoff's Product and Market Matrix

Figure 1: Ansoff Matrix

Market Penetration:

As it is the strength of the Bentley they must try to recapture and get advantage of the existing market by promoting their domestic alarms and commercial alarms and try to get some repositioning of the brand.

Market penetration for Bentley required covering of the four main objectives:

Maintain or increase the market share of current products – this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling

Increase usage by existing customers. For example by introducing loyalty schemes.

Market Development:

They can also go for new markets with the existing product range in these new markets. This means that the product will remains the same, but it is marketed to a new customers. Exporting the product, or marketing it in a new region.

There are many possible ways of approaching this strategy, including:

New geographical markets; for example exporting the product to a new country

New product dimensions or packaging: for example, New distribution channels

New pricing policies to attract different customers or create new market segment

Product Development:

This is a new product to be marketed to existing customers. Here they can develop and innovate new product offerings to replace existing ones. Such products are then marketed to our existing customers.

Diversification:

Bentley can go for the diversification which can be separated into horizontal and vertical.

The horizontal diversification is the addition into the production program like new kind of alarms.

The vertical diversification is at the sales stage where company needs to store products according to demand.

Product Life Cycle

If we compare the two alarms developed by the Bentley we can find that these products are on maturity stage and looking towards a decline as Bentley fail to keep the innovation accordingly. They need more efforts to bring innovation changes and effectiveness of the products so they can put the product back on its growth.

Figure 2: Bentley product life cycle

Similarly their door supervisors company or security Inc is complete in decline as they fail to generate new customers and now form here it seems total dog stage in a market. Still they can either decide to keep it or they can go back to their core competencies of alarm production. If they want to retain it they need to redesign the human resource management which is completely fail to produce any result since they acquired this company.

Figure 3: PLC possibility for Bentley

2. 4 Value Chain

We can better understand the actions of Bentley through it developed a competitive advantage and create shareholder value by a value chain analysis. In his 1985 book Competitive Advantage, Michael Porter introduced a generic value chain model (M. E. Porter 1998) that comprises a sequence of activities found to be common to a wide range of firms.

The aim of these actions is to put forward to the customer a value of product that exceeds the cost of the process, and easily brings in a profit margin.

As it can be analyze in value chain model that Bentley have some core competencies and the activities in which it can pursue a competitive advantage as follows:

Cost advantage: by better understanding costs and squeezing them out of the value-adding activities.

Differentiation: by focusing on those activities associated with core competencies and capabilities in order to perform them better than do competitors.

Cost Advantage

A firm may create a cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain. As Porter identified ten cost drivers related to value chain activities, So Bentley can go through each and seek what is workable for them in this process:

Economies of scale in production of alarms

Capacity utilization that's in alarm production

Linkages among activities at the company

Interrelationships among business units by aligning security inc with alarm business

Institutional factors must be controlled especially in security Inc(regulation, union activity, taxes, etc.)

At Bentley cost advantage also can be pursued by reconfiguring the value chain. Reconfiguration means structural changes such a new production process, new distribution channels, or a different sales approach. For example, FedEx structurally redefined express freight service by acquiring its own planes and implementing a hub and spoke system. (Fedex 1995-2000)

Differentiation

Bentley can achieve a differentiation advantage either by shifting individual value chain actions to add to distinctiveness in its alarms or it can get it by reconfiguring the value chain.

It can go into forward integration in order to carry out some functions that were performed by its customers like categorization of its alarm systems and models according to customers need. It can adopt a backward integrate to manage over its inputs. It can implement new process technology or utilize a new supply channel.

Technology

Because technology is in use to some degree in every value creating action, changes in technology can bring competitive advantage.

Bentley is using various technologies in both primary activities and support activities as its given below:

Inbound Logistics Technologies

Transportation of materials

Material handling inside production place

Material storage at stores

Operations Technologies

Process of production

Machine tools used for production and handling

Packaging of the alarms

Maintenance of finished goods

Testing of alarms

Building design & operation

Outbound Logistics Technologies

Transportation of alarms supply to supply stores

Material handling inside stores

Packaging for supply

Communications between all departments involved

Marketing and Sales Technologies

Media utilization (Print/electronic/Audio/video)

Communications

Service Technologies

Testing

Communications

Linkages of Activities

Bentley can redesign the alarms for with different shapes and qualities for different customers. This way even it can reduce manufacturing costs. If it is be able to reduce cost in one activity and as a result benefit from a cost reduction in another, from a design change and successfully reduces manufacturing costs and it also further improves due to this costs reduction.

Thus it can such improvements the firm has the potential to develop a competitive advantage.

Business Units Interrelationships

Tangible interrelationships offer direct opportunities to create a synergy among business units. For example, Bentley can make its multiple units share whatever it's possible among the business units to share for cost reduction. This sharing of the procurement activity can result in cost reduction.

Outsourcing

To decide which activities to outsource, managers of Bentley must understand the firm's strengths and weaknesses in each activity, both in terms of cost and capacity to differentiate. Managers may consider the following things when selecting activities to outsource.

Competitive position

Bentley has good track record of twenty five years in alarm business. It is one of good company in market. After it tried to expand its business into security provision (door supervisors) it facing more problem as this new acquisition is not performing well. If we closely analyze the investment situation it still putting les s on alarm business and getting more compare to its security personals business. Company is selling all its products on fair price as compare to market even if they decide to raise price in all precuts still they have advantage over their rivals in the market. They can easily attract customers on this pricing advantage and by creating new innovation in designing or promotions they can still come back into competitive position in the market.

3 Question Two:

Is the CEO correct to conclude that these actions will remove all incentive for another company to take over Bentley?

3 Answer:

3. 1 Porter Five Analysis of Company

In his book Competitive Strategy, Harvard professor Michael Porter describes five forces affecting the profitability of companies. (Porter 1998) These five forces, taken together, give us insight into a company's competitive position, and its profitability.

Rivals

For Bentley rival is competitor within industry, this rivalry in the industry is very high for Bentley. As these rivals are competing with Bentley over following factors:-

- Number of rivals in market

- Fixed costs

- Product differentiation

New Entrants

One of the defining characteristics of competitive advantage is the industry's barrier to entry. In security industry its very low for every one starting security firm as there are many barriers from government and its security regulating agencies. Bentley can enjoy benefits of common barriers to entry:

- Patents – patented technology can be a huge barrier preventing other firms from joining the market.

- High cost of entry – the more it will cost to get started in an industry the higher the barrier to entry.

- Brand loyalty – As Bentley is in market since 25 years its definatley have some worth related to its products specially its alarm systems.

Substitute Products

Bently should look keenly for what the company's other competitors are doing, and what other types of products are available in the market as there is advancement in technology so there is high risk from others competitors for Bentley. As is the case dealing with new entrants, company can go into an aggressively price to its products to keep people from switching.

Buyer Power

There are two types of buyer power. The first is related to the customer's price sensitivity. The other type of buyer power relates to negotiating power. Conversely, if a company sells to a few large buyers, those buyers will have significant leverage to negotiate better pricing.

Some factors affecting buyer power are:

- Size of buyer

- Number of buyers

- Purchase quantity

Bentley have advantage in its price and durability of products it have less buyers power broblem.

Supplier Power

When multiple suppliers are producing a commoditized product, the company will make its purchase decision based mainly on price, which tends to lower costs. On the other hand, if a single supplier is producing something the company has to have, the company will have little leverage to negotiate a better price. Here for Bentley things are favorable with less suppliers power as they depend less over the raw materials.

A few factors that determine supplier power include:

- Supplier

- Switching costs

- Uniqueness of product

4 Question Three:

If the team decides on MBO, how much should they be prepared to pay?

4 Answer:

4. 1 Management Buyouts (MBOs)

A management buyout MBO is the purchase of a business by its management.

Some time owners or the shareholders of any business want to sell the shares of the business or company. For that they give opportunity to the existing management to buy the business. As they know the details of the business and are in a strong position both to worth it and also run it. One can assume that they will make good effort for themselves than for other people.

A management buyout is a rare thing in business likely to be a great test of any company and its management's skills in business. Bentley can sell its security Inc as its not performing well and putting problem for the business. For a successful MBO Bentley team may require to focus on some pre MBO arrangement. They not only have to secure their own money and career, but they have to show that they have the vision and proper ability to change their organization and to deliver better outcome as results. Another requirement is their enthusiasm and commitment to convince the management who will buy it that their MBO will work. There are following procedures that required to be followed for a successful MBO.

Decision to proceed

Managers as investors will be keen to invest in Bentley with predictions which offer the chances of gaining the profits they will invest for. As potential returns maybe higher than current returns because people in new setup will work harder. An understanding of the factors affecting Bentley can help to set forward actions properly.

Business plan

MBOs are normally highly geared, so the Bentley needs to be able to produce cash and success in the short term. They may have tactics which are practical in the long term, though it will be tricky to assure the investors among management that their future is on growth side.

Form the management team

A very significant part of a successful MBO is to put a management team that has a high-quality record. Possible investors will like to know how they can make adjustments in than the present team. Bentley must therefore put a clear deliberate plan for the business.

Arranging the funding

Valuing Bentley Company is complex matter and here is no set rule. Whatever investor will give that will be relate to many things. Those are the balance sheet and current profits. The future potential of the business will be vital but sometimes want of the present owners to sell can be important.

Agreeing terms

The financing for an MBO normally include the decision-making board and its own interest, its equity and debt position. Different management investors will be looking for diverse returns from this deal, base on the assumed risk they will be taking.

Deal co-ordination

There can be no set rule for the management to invest into the management buyout. Still, they will require showing the guarantee to the company by creation a major asset of their money, although there can be a massive strain resting on their time and skills.

Completion

Negotiating for buyout is not always very simple, as there is some concern of unsatisfactory present relations as company is going for MBO. Some management buyout teams can pretense their advisers to take opening move toward success. A talk to buy any business is always a complex activity, and there is fact that seller has vital test. The information contain in the factsheets must never be relied lying on top.

5 Conclusion of Study:

We can see that Bentley was handling alarm systems selling effectively but after adopting the security firm it went into many problems. Now it is necessary for them to try a successful management buy-out for that, which can make such arrangements that will help it to get maximum future investment to cover its problems related to other products.

Furthermore they can go for a right sizing and downsizing to control the gap of expenses and profits. This way Bentley can go back to its profit position as it was in past before adaptation of the security firm.